THE FUTURE OF BRITISH RAILWAYS

A PLEA FOR CO-OPERATION

BY

W. J. STEVENS

WITH A FOREWORD
BY
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PREFACE

IF there is one thing more certain than another in this very uncertain world it is that individual or group interests must be subservient to National welfare. The success of the National Government in lifting the country out of the great depression in the face of growing International dangers and distress enforces that principle. But it may well be that positive neglect of some outstanding interest may have over-riding effects of a particularly adverse character on the wider interests of the nation. Is not this the case with our railways? Yet surely they deserve well of the community.

After over four years of industrial recovery the position of the railways is by no means fully restored to that modest level of security contemplated by Parliament when it surrendered control of the railway system after the war. In other words, the average return of 3¼ per cent. on railway capital and only 1½ per cent. on the entire ordinary capital earned for the year 1936 fell disastrously short of the modest rate of rather less than 4¾ per cent. which Parliament itself expressly laid down as the "standard" under the Railways Act of 1921. That bargain was agreed upon in preference to a guarantee or to nationalisation of the railways at that stage.

The broad interests of the trading and travelling

public, of the railwaymen, of the investor, and of the community in general can only be fully served by the achievement of standard revenue, and I am encouraged in this view by the judgment delivered on July 27th last by the Railway Rates Tribunal declaring that the legislature "regarded the realisation by an amalgamated company of the standard revenue to be in the *public interest*" (the italics are mine).

In the following pages I have put forward a plea for active co-operation among the various interests as the only method of promoting national welfare in relation to this leading industry. The prospects of accomplishing the task of realising standard revenue and thus re-establishing financial equilibrium are brighter. At present the machinery for regulating the railway system is slightly out of gear, though the zeal of the railway managers and the general body of railwaymen and the patience and enforced abstinence of the shareholders have combined to overcome many difficulties in the last few years. The result is that our railway system is already a more efficient instrument for the service of the public than at any previous period in its hundred years' history. The old "monopoly" tradition has been swept away. Many difficulties yet remain and it may be that the co-operative spirit for which I plead will create the only atmosphere in which they can be overcome to the mutual advantage of all concerned.

W. J. S.

December, 1937.

FOREWORD

THE railways are still the principal means of transport in this country. The genius of Stephenson provided the original foundation for their vast organisation; the running of the steam locomotive on metal rails created the greatest revolution in transport that has ever taken place in history. The Industrial Revolution only became really effective with the revolution in transport; and we can truly take pride in the fact that this was Britain's gift to the world.

Not only were railways invented in this country, but we were also the first to develop them. The railways exercised a strong creative influence on social and industrial development during the last century. They soon obtained a pre-eminent position for comfort, speed and general efficiency for the handling of traffic, and the efficiency of the system has kept in step with progress in the new mechanised civilisation which now has us inescapably in its grip.

It is universally acknowledged in general terms —and just as generally forgotten by the public in dealing with particular problems—that the maintenance of an efficient railway system is a national

necessity, and the Companies are unceasing in their efforts to fulfil the transport requirements of the community. To-day the groups are not merely companies for railways, they are complete transport systems in themselves, for they employ all forms of transport in their endeavour to provide efficient service.

Three groups of people within the body politic are entitled to share in the benefits created by this comprehensive transport service. In the first place, there is the general public; the provision of the most complete transport facilities for passengers and merchandise at the lowest charge is the primary aim and indeed the reason for their existence. Then we must consider the staff. The railways employ nearly 600,000 persons for the operation of the systems and their labour bill is in the region of £100,000,000 a year—a very high proportion of the total expenses. The great majority of these employees have been granted standard rates of pay and working conditions; and if there is disagreement between the railway companies and the staff or the trade unions, it may be referred to a national council, and failing agreement by that body, to a Railway Staff National Tribunal. Finally, there are the stockholders, who have provided the resources by which the public are served and the workers employed. They are the "owners" of the railways and, through the directors, conduct the business. The interest on the prior stocks is fixed,

and the holders of the ordinary stocks are entitled to the remaining profits. It is mainly from the stockholders' point of view that Mr. Stevens has written in this book. He draws attention to the fact that under the Railways Act of 1921 railway rates and charges were required to be fixed by the Railway Rates Tribunal at a level which would, with other sources of revenue, so far as practicable, yield with efficient and economical working and management, an annual net revenue known as the "standard revenue"—itself, compared with other industrial prospects, a modest return upon capital. There was not, however, any State guarantee or pledge that this standard revenue would be realised, though it may at least be fairly inferred that the State would not wilfully provoke or encourage economic developments which would make it more difficult of attainment—in other words, that only after this modest return had been attained would activity in competition be regarded as to the public advantage. This standard, therefore, merely represents the upward limit to profits aimed at by the Tribunal in fixing rates and charges; but it did set up the standard which Parliament considers the railways are entitled to earn if they possibly can. Mr. Stevens points out that in 1936 the actual net revenue of the four groups was some £15½ million below the standard; indeed, the total debenture interest and dividends amounted to £8½ million less than in 1929. It is not always remembered that in

1929, and again in 1930, £36 million of ordinary capital received no remuneration. In 1932, and in 1933, no less than £311 million of capital was in a similar position, and even in 1936 £78 million still remained without return. These figures may appear modest in proportion to those of other countries, whose railways have been facing similar problems, but it is clear—as Mr. Stevens points out—that so long as this position continues the stockholders are the unfortunate victims of circumstance, and the railways cannot recover that measure of prosperity which is adequate to the provision of expanding service to a growing economic community. For making all this plain, Mr. Stevens's book is to be cordially welcomed.

J. C. STAMP.

December, 1937.

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CHAPTER I

INTRODUCTORY

"The greatest asset of the British Government is its good faith. There is no scrap of paper to which we put our signature which is not honoured and I would sooner go a little beyond the bond than have anyone say the British Government had dealt sharply with them and had failed to carry out the expectations which it had raised."—SIR AUSTEN CHAMBERLAIN, M.P., Chancellor of the Exchequer, June, 1919.

MEMBERS of Parliament from time to time appeal to the British Government for the protection of investors in Mexican, Brazilian, Argentine, etc., railways. The foreign Governments concerned could very well retort by suggesting that the British authorities should first of all put their own house in order, although, admittedly, the British Railways have never been in quite such a sorry plight as those referred to. The said Members of Parliament, if they care to look round among their constituents, will be able to find many railwaymen and investors in British railway securities, not to mention traders

and manufacturers, whose fortunes depend upon the maintenance of a reasonable measure of prosperity in the railway industry. This aspect of affairs becomes vital when we carefully bear in mind the steps which have been taken for some years to strengthen national internal economy. After all, there are nearly 600,000 railwaymen concerned. There are also about 850,000 railway shareholders who, on the surface of things, would appear to hold an average of about £1,200 stock. Closer examination, however, indicates that among these holdings are many corporate holders, including banks, insurance companies, building and friendly societies, not to mention trustees and trade unions, representing many thousands more. It is difficult to ascertain the exact position, but there is every reason to believe that the average investment interest in British Railways is spread to a greater extent among the smaller capitalist than in the case of any other class of investment, with the exception of British Government securities.

On the trading and manufacturing side, railways are the country's best customers, and whether the expenditure is incurred on revenue account from year to year, or on the large capital works usually being undertaken, practically the whole of their purchases are made in the home market. A few examples may be given: consumption of coal by the railways is about 15,000,000 tons per annum; about 260,000 tons of rails are bought each year; not to mention 20,000,000 bricks and over 2,000,000 yards of cloth for uniforms every year.

Whilst the financial position of the railways at home has never been quite so serious as that of many foreign railways above referred to, it is important to bear in mind that their fortunes fall seriously short of the conditions laid down by Parliament in the Act of 1921. In spite of considerable improvement since 1932, the average return on British railway capital is only about $3\frac{1}{4}$ per cent., and instead of the standard revenue of over $51\frac{1}{4}$ millions which Parliament authorised in 1921, the sum earned in 1936 was barely $35\frac{3}{4}$ millions, representing a deficiency of over $15\frac{1}{2}$ millions. Some further improvements may be expected when the accounts are presented for the year 1937, but it is fair to say that so far as the investing public are concerned the bargain made between Parliament and the railway companies has not been completed up to the present, though there was certainly no guarantee. There is another important point. No securities of any foreign railways have ever been authorised as British Trustee investments. Under section 15 of the Railways Act, 1921, the Debenture, Guaranteed and Preference stocks of the Group Railways were definitely authorised by Parliament as Trustee investments—in the main the same securities having been authorised Trustee investments before the grouping. In Table I (see Appendix) details are given of these Trustee stocks which, wholly or partially, defaulted in their dividend for the year 1932. The total amount involved is about 286 millions of stock and the loss in dividend for that

year amounted to over seven millions. It is true that in subsequent years there was great recovery, but, even for last year, over 66 millions of London and North Eastern 4 per cent. II Preference received only ½ per cent., instead of the 4 per cent. to which it is entitled. The default in the Trustee stocks detailed in Table I related wholly to London and North Eastern and London Midland and Scottish pre-ordinary stocks. Those two groups, being specially dependent upon goods and mineral traffic, felt the full force of the " economic blizzard." The Great Western and Southern groups, being less concerned in the depressed areas, were able to maintain the status of their Trustee stocks, though in the former case the loss of traffic particularly felt in the South Wales district was so disastrous that the company had to make large inroads into its reserves to do this.

The credit of the companies suffered so seriously that in arranging the necessary programme of capital expenditure they have had to rely on the credit of the Government in order to raise the necessary funds at a reasonable rate. That was one reason why 27 millions 2½ per cent. Guaranteed Debenture Stock 1951/52 was issued by the Railway Finance Corporation in January, 1936, carrying the guarantee of the Government.

The foregoing considerations make it imperative in the national interest that the further necessary steps be taken to safeguard the prosperity of the industry.

In the following chapters the relations of the

industry with the Government, with the public, with the staff, and with the shareholders will be discussed with a view to discovering the widespread mutual interest which already exists and the opportunities afforded for useful co-operative effort.

Finally the position and prospects of each of the group companies will be analysed in the four concluding chapters.

CHAPTER II

RELATIONS WITH THE STATE

Government Control and After

"At my request the Managers of British Railways came over here to see for themselves our requirements, and all of them said to me: 'What do you need? We shall give it you.' I got all I asked for and even more; for the Companies carried patriotism so far as to tear up from their tracks the rails that we needed."—EARL HAIG (then Sir Douglas Haig), February, 1917.

AFTER seven years of Government control, extending from the outbreak of war in August, 1914, till August, 1921, the railways were returned to the companies. On the outbreak of war practically all the railways were taken over by an Order in Council under section 16 of the Regulation of the Forces Act, 1871, which authorised the Government to take possession. The same Act provided that the owners of the railways should be paid such "full compensation" as might be agreed upon or, failing agreement, as may be settled by arbitration. The Act of 1871 did not appear to define what "possession" meant, but in the Ministry of Transport Act, 1919, the omission was supplied. Section 3, sub-section 5 of the latter Act reads as follows: "For the purpose of this Act possession so taken or

retained shall confer on the Minister such rights of control and direction as may be necessary for the exercise of his powers under this Act, but shall not confer on him any rights of ownership."

When the Government took "possession" of the railways in August, 1914, it was in circumstances which induced all concerned to assume that the period of control would be brief. As a matter of fact the system of control was an interesting one. It consisted of a Government Warrant issued regularly every week from August, 1914, till August, 1919. Government control, of course, extended for a further two years, to August, 1921, but the Ministry of Transport Act, 1919, expressly provided that possession by the Government should be retained during this period without any further renewal of the weekly warrant.

During this seven years' period of Government control, the whole of the railway service was devoted to the business of war with an absolute disregard of every other interest, including that of the shareholders. Upwards of 200,000 men, more than 30 per cent. of the then existing staff, were released from their ordinary duties for service with the Army and Navy. The railway shops, instead of carrying on their usual work of renewal and maintenance, were devoted to munitions, etc., work. Hundreds of miles of permanent way, some of it torn up from the existing track, were sent to France together with a large quantity of rolling stock. The various fleets of steam vessels belonging to the railways were also placed at the disposal of Government.

During the control period, therefore, the natural development of the systems was arrested, expenses were enhanced at the behest of the Government, the goodwill of many companies had been destroyed, permanent way and the railway stock seriously depreciated. All these, and many other obligations, were accepted as a matter of course as a patriotic contribution to the conduct of the war. The whole arrangement, of course, was hurriedly improvised on the outbreak of war, and was briefly as follows: In lieu of making any charge to the Government for the enormous traffic in men and materials, it was arranged that the State should guarantee to make up to the railways the net revenues on the basis of their earnings for the year before the war. This arrangement had the advantage of saving an enormous amount of accounting and clerical work, but it had one serious disadvantage in the closing periods of the arrangement which, of course, extended over the period of seven years. The large payments made by way of Government compensation were nothing more than a return for the services rendered on an increasingly large scale. The sums were so large that they gave rise to the suggestion that the railways' solvency was seriously threatened, which was really never the case. The present writer has in his possession a letter from the secretary of one of the great railways, dated May, 1919, stating that records had been kept of the Government traffic and that the value of such traffic, if charged in the ordinary way, would have largely exceeded the amount of the deficiencies made up by the Govern-

ment. It is desirable to give this brief summary of the situation arising out of the period of Government control in order to realise the conditions in which the bargain between the Railways and the State, represented by the Railways Act, 1921, was ultimately entered into.

The Ministry of Transport Act, section 3, extended the period of Government control for the further two years "with a view to affording time for the consideration and formulation of the policy to be pursued." The reference in the Act of 1871 to "full compensation" was not at all helpful. The Minister of Transport, who received his appointment under the Act of 1919, had various possible solutions of a vast problem. The principal ones were as follows:

(1) Continued guarantee by Government based on the 1913 revenues.

This would have been a continuation of the emergency measure adopted on the outbreak of war. The principal objection to it was that no provision was made for future development, which was an urgent matter at a moment when a policy of Reconstruction was being forced upon the country as a whole.

(2) Unification.

This was a device for merging all the railways into one big company, and seemed almost to be merely an acceleration of a movement on the lines of amalgamation which had already proceeded since

the early days of railway administration. It was open to serious administrative objections.

(3) Grouping.

This was an alternative to the wider proposal of unification, and was ultimately adopted.

(4) Nationalisation.

This was a solution that found favour even in some Government circles, but met with serious political and financial objections.

In connection with this problem of the return of the railways to their owners after Government control, it is interesting to note that apparently no change has been made in the conditions under which the railways might in future be placed at the service of the State. That is to say, section 16 of the Regulation of the Forces Act, 1871, still represents the only provision for such an emergency.

Economists and others are not infrequently advising us to-day to visualise industrial development in time of peace with some proper consideration of the country's requirements in time of war. The railway system proved itself a most efficient and essential means of transport in the war period and, although interested propagandists have sought from time to time to advance an alleged superiority of road and air, the railways still maintain their advantages. Nor need we apply the test of war conditions to prove this. In fog, frost, snow and flood, railway services in this country are rarely interrupted at times when, unfortunately, the same

can scarcely be said of road, air, or even shipping services.

Though our railway system is maintained at great cost to the owners and continues to be an efficient servant of the State during peace or war, a timely warning was given by Sir Josiah Stamp in February last. Addressing the annual meeting of the London Midland and Scottish Railway, he said: "A policy of sapping the railways in times of peace, whether by legislative or administrative action, will be to the nation's detriment in times of war." The fuel problem alone gives railways a predominant position in relation to transport under war conditions. Coal is readily available and is already suitably stored. Oil has to be imported and its storage presents difficult questions of safety and cost, not to mention transport by sea.

The problem presented to the Minister of Transport in 1919, after much discussion, was solved by the introduction in 1921 of the Railways Act of that year. In the then condition of the industry it was accepted in all quarters concerned as a reasonable compromise. In the following chapter the main principles and consequences of this important measure will be considered in detail.

CHAPTER III

RELATIONS WITH THE STATE

Standard Revenue

"They have invested in undertakings of great public utility and they are entitled to have security for their money."—SIR ERIC GEDDES, addressing the House of Commons, June, 1920.

THE largest individual company before the grouping was carried into effect was the London and North Western. Its chairman issued to the shareholders in December, 1919, a memorandum on the position which contained the following striking statement :

"It was at once obvious on the outbreak of the war that the interests of the State required not only the full exercise of existing statutory powers, but also the entire subordination of the commercial interests of the Companies to the national purpose, and in this the Directors acquiesced, upon the understanding (the justice of which no one disputed) that, while, on the one hand, the proprietors would forego the profits which they might have made, quite legitimately, out of the vast transport operations, military as well as commercial, which had to be conducted upon the railways during the war, they would on the other hand be entitled broadly speaking to their net revenue on the pre-war basis during the control, *and would receive their undertaking back at the end of the war unimpaired in net revenue-*

earning capacity. Arrangements were therefore made on this basis at the outbreak of the war, and these remained in operation when hostilities came to an end last winter."

In other words, this great industry did not "profiteer" but, in the interests of the country as well as its owners, it had to be put in a position to carry on efficiently in the future. The Railways Act, 1921, is described in its title as an Act "to Provide for the reorganisation and further regulation of Railways and the discharge of liabilities arising in connection with the possession of railways."

Part I provides for the grouping into four large groups by a process of amalgamation and absorption of the larger and the smaller companies respectively. This grouping came into operation as from January 1st, 1923, with the exception of some minor undertakings, eventually absorbed. Provision was made in section 11 for the payment to the companies of some 60 millions, entitled "The Railways Compensation Account." Half of this was paid at the end of 1921 and the remaining half at the end of 1922. As half of this was liable to income tax, however, the net sum paid by Government was 51 millions.

Part II. Dealt with minor matters with regard to the regulation of railways.

Part III represents the central feature of this great measure, namely, the creation of a Railway Rates Tribunal with authority to introduce standard charges; the provision of a standard revenue and machinery for maintaining that revenue in future

years; allowance for unfructified capital and for future capital expenditure which, of course, it was desired to encourage.

Part IV deals with wages and conditions of service; the creation of a Central Wages Board and a National Wages Board. Statutory provision was made for the appointment on the latter of representatives of the three railway trade unions.

Parts V and VI, relating to light railways and to general provisions, were comparatively unimportant.

The standard revenue as set out in section 58 consists of the aggregate net revenues for the year 1913 (subject to "efficient and economical working and management") of all the companies included in the four groups respectively, and

(*a*) There is an addition of a sum equal to 5 per cent. on capital expenditure incurred during the period of possession by the Government and allowance on any additional capital "raised or provided"; and (*b*) an allowance for any capital which had not at the beginning of the Government control period become fully remunerative.

There was no doubt in any quarter directly concerned that the standard revenue could be earned had all the circumstances existing in 1921 remained unchanged. The late Sir Eric Geddes, as Minister of Transport, submitted to Parliament an "Outline of Proposals" in 1920 which went even beyond this view. Sir Eric suggested that, with due care and economy, it would be possible for the group companies to improve on their pre-war return.

He then went on to suggest that in such an event the Government was of opinion that such surplus revenues should not accrue entirely to the companies. Provision on these lines was actually made in the Act of 1921. After the standard revenue came into operation it was to be reviewed on the basis of the published accounts of the companies from year to year, and if a surplus were earned 80 per cent. was to be applied in a modification of the standard charges. On the second reading of the Bill in the House of Commons Sir Eric Geddes even suggested that economies arising from grouping might be estimated at 25 millions a year, and described that figure as "a very conservative estimate." In the course of the same speech he referred to the real incentive in community of economy for both the trader and the railway manager arising from this prospect of reduction in rates. He also enlarged on the point by suggesting to Parliament that "It was good to have this chance of removing the antagonism between the trader and the railways which undoubtedly existed before the war and which, I think, will never exist again where there is a community of interests to cut down the costs." Allowance, of course, must be made for the natural enthusiasm of the parent for this particular child, but the same view found expression in railway circles as well. Addressing the shareholders at the annual meeting in February, 1922, the then chairman of the Great Western Railway (Lord Churchill), expressed the following views. After stating that he was satisfied it would be possible to effect con-

siderable savings as a result of grouping, he referred to the Act as constituting a new "Triple Alliance," the allies being the railway companies, the railway employees and the traders.

From the investors' point of view the Railways Act, 1921, fixed a definite upper limit to railway profits and dividends, but no minimum. On the other hand, taking into account the economies from grouping and the wider powers for revising rates, it seemed to enhance the security for the maintenance of the pre-war standard of dividends.

The standard revenue came into operation as from January 1st, 1928, and the first annual review by the Rates Tribunal fell to be held in the spring of 1929. It was already evident that the companies would find it difficult, on the basis of the then charges, to achieve their standard, and they might well have approached the Railway Rates Tribunal to put in force the provision existing in the Act for a revision of rates. Instead, a letter addressed to that body stated it was not the companies' intention to put forward any proposals for an increase in charges, that decision having been come to in view of various factors in the economic position of the country. That restraint in seeking to apply the machinery of the Rates Tribunal has continued until the present year. It is illuminating to recall the conditions in relation to this matter of economy arising from amalgamation on the one hand, and the difficulties of applying the standard revenue on the other, which are set out in the following quotation from an address to the shareholders of the

London Midland and Scottish Railway in February, 1932. Sir Josiah Stamp then said:

"As I pointed out four years ago, rationalisation on any amalgamation requires, first, time for comparison and deliberation and choice; second, a period of transition and execution; third, an ascending period of realisation.

"It is a platitude to state that the problems encountered, when endeavouring to get the best out of the organisation and staff of a large and diversified business, are quite different from those involved in concerns of a smaller magnitude. But these differences and difficulties are greatly increased, first, where a large business, such as the L.M.S.R., is made up of a number of distinct technical or professional crafts necessarily working in self-contained departments; second, where it has been built up by the aggregation of a large number of different concerns with quite different practical and historical antecedents; and third, where the period of consolidation is one of intense economic unrest, depression of trade, and unprecedented subsidised competition from other quarters."

"The economic position of the country and unprecedented subsidised competition" were the main reasons why the railway companies hesitated to apply the remedies expressly provided by the Railways Act, 1921. On any application of the railway companies the Railway Rates Tribunal was charged with statutory authority to raise railway rates in order to achieve the standard revenue. The companies, for their part, hesitated to take a step which, instead of raising the revenue, might quite possibly have led to a reduction.

Taking all the circumstances into account, can

it be suggested that the solemn bargain with the State entered into in 1921 had been met? Can the railwaymen view with equanimity a flaw in the structure which threatens their future? Can the trader view with unconcern a state of affairs under which charges which ought to be undergoing reduction are now being increased? Can the Government itself view with apathy a danger which threatens the wellbeing of a large and highly creditable section of the investing public at a time when it has chosen to spend millions of public money in subsidising road, air and tramp shipping among other forms of transport?

Changes are being effected which promise some alleviation—but much depends on more active co-operation than has hitherto prevailed among the various interests vitally affected.

CHAPTER IV

RAILWAYS AND THE PUBLIC

Some General Considerations

"In this country it is unquestionable that all other forms of internal transport are subordinate and ancillary to the railway system."—SELECT COMMITTEE ON TRANSPORT, November, 1918.

WHY did the machinery so universally admired when set up in the form of the Railways Act, 1921, fail to function? Not from deliberate wickedness on the part of the Government or even from callous disregard of the just claims of a deserving body of investors. Rather, the answer to this fundamental question is to be found in the rapid development of the internal combustion engine. It may be an exaggeration to suggest that this monster exploded the regulated monopoly enjoyed for nearly a century by the railways. At least the railways, robbed of their monopoly, were left with the regulations—too many and too rigid to afford fair opportunity for them to meet the onset of their new rival. The roads have seemed to be regulated, but by no means effectively. Railway rates are regulated and published, and are open to the public. Road competitors can use the information there

supplied to steal traffic. Railways must cater for all traffic; road hauliers can, and do, pick and choose. Some years ago a railway authority pointed out that a consignment of watches from Birmingham to London would be carried by road, but a consignment of manure between the same points would almost certainly go by rail. Railways provide their own road together with the cost of maintenance, policing and signalling. As this railway highway represents a capital outlay of over 800 millions, the interest charge would amount at 4 per cent. to 32 millions, and, in addition, maintenance costs 18½ millions a year, and then there is signalling. The road competitor has the use of roads costing the nation even larger sums—a consideration usually left out of account in comparisons of cost. The standard of wages and conditions of service are very properly maintained by the companies and railwaymen's unions acting with State authority. Neglect of such protection for the road worker has been a scandal only now being removed.

The railways are now trying a hair of the dog that bit them. Under Parliamentary powers granted them in 1928 they have invested something approaching 10 millions in passenger road transport, representing 15,000 passenger vehicles, and they also own over 9,000 parcel and goods motor vans. Improvements have been effected by the Road Traffic Act, 1930 and the Road and Rail Traffic Act, 1933, though, considering the interests at stake, the process of equalising the conditions between road and rail competition has been dilatory from

the viewpoint of the highest interests of the trading and travelling public—not to mention the tax-payer and ratepayer. More co-operation will do much, and it is coming.

From both railway and public standpoint the destruction of the railway monopoly has had some long-range rewards—painful though the operation has been for junior railway stockholders, who have almost entirely footed the bill. Service and salesmanship have become the inspiration of railway management, and they have been reinforced by a development of skilful publicity. And economies, encouraged and made possible by grouping, have been stimulated by grim necessity, so that between 1924 and 1933 total savings on all businesses carried on by the companies amounted to about 40 millions per annum. The economies have been larger than they appear because they have been masked to some extent by the cost of definite technical improvement in the efficiency of public service.

The traveller on British railways has been provided with increasingly efficient services including a remarkable speeding up of main line trains, longer non-stop runs, much-needed improvement in cross-country services, better and more comfortable rolling stock, interchange of facilities by alternative rail and road routes, and cheap tickets, etc.

The trader has also been catered for by faster freight trains, registered transit, containers, C.O.D. system, railhead depots, lorry services and lower parcel rates, etc.

Similar advance has been shown in the services

to the public of the ancillary undertakings, such as steamers, docks, warehouses, air services, motor transport, hotels, catering, etc.

Technical progress has been remarkable, and has many developments to its credit. Whilst the steam locomotive has developed new possibilities, much attention has been devoted to extension of electric services in suitable areas, the provision of train ferries, streamlined rail-cars for passenger service, and experimental use of Diesel locomotive and rail-cars. Research on scientific lines has done much to promote economy and efficiency. A further promising development has been the opening of the Railway Staff College at Derby.

" Safety First " is not an ideal to lecture about—it is the very basis of British railway operation. The Leader of the Opposition has described our railways as the " least lethal " form of transport.

In his annual report for 1936 the Chief Inspecting Officer of Railways refers to this remarkable record :—

> " Having regard to the foregoing information the incidence of accident and casualty for 1936 shows that the high standard of safety on British Railways was fully maintained."

In train accidents during 1936 only three passengers were killed, though the number of injuries rose slightly to 497 during 1936 compared with 408 in 1935. This is a weighty tribute to the science of railway signalling and still more to the constant care and devotion of many thousands of railwaymen,

for which, perhaps, sufficient gratitude is not usually shown. Compare these figures with road and air casualties everywhere, and they become striking indeed. The railway accident is, fortunately, so rare that, however trifling, it is treated as " news " by the B.B.C. and the Press—whereas they have neither the time nor the space to report many of the road casualties.

Those responsible are entitled to claim that the railways are making a positive contribution to the Government plans for " Physical Fitness " on the very sound principle that prevention is better than cure. At least they do refrain from killing 7,000 and injuring over 200,000 in the course of a year. And, in spite of the high level of safety in railway travel, many thousands of railwaymen are, as the result of careful training which receives official encouragement, qualified to render first aid.

Co-operation with the public and by the public is desirable to overcome the difficulties associated with the " rush hour " traffic morning and evening. An equally difficult problem is the " peak " traffic in August and at Christmas and also at the week-end during the height of the holidays. The solution is not easy, and does not merely concern the railways or their travellers. If the holidays could be spread and the rush hour traffic " staggered," much better service would be available. Moreover, in regard to the " peak " during the holidays, the more general spread would be welcomed by many thousands of seaside landladies, hotel keepers and others who find the undue concentration of the holiday season in

August not only an embarrassment, but a condition of affairs which is apt to reduce their hard-earned incomes. The welcome movement towards holidays with pay which is spreading throughout industry aggravates a problem which cannot be solved by the railways and other transport agencies alone.

CHAPTER V

THE PUBLIC INTEREST

"Consideration of the provisions of the Railways Act, particularly sections 32, 36, 37, 38, and 41, appears to indicate that the legislature in enacting Sections 58 and 59 of the Act regarded the realisation by an Amalgamated Company of its standard revenue to be in the public interest."—JUDGMENT OF RAILWAY RATES TRIBUNAL, July 27th, 1937.

"SECURITY" based upon an Act of 1921 which at the end of 1936 left the railways with a deficiency of over 15½ millions per annum, or 30 per cent. of their standard revenue, did not inspire confidence—hence the depreciation in the junior securities of the railways. The recovery in profits of all other industries did not render this deficit any more tolerable.

Mark well, however, that the failure to establish financial equilibrium in no way discouraged other parties to the bargain upon which Parliament set its seal in 1921. The Government itself invited the companies to spend more capital, and gave its guarantee under conditions which imply that the ultimate risk falls entirely upon the shareholders. The railwaymen came forward and asked for full restoration of wages "cuts"—a not unreasonable claim from every point of view, except the ability of the companies to pay. And then the coal merchant

and that large body of manufacturers and traders who count railways among their best customers put up their prices.

Confronted by these insistent demands, the railways decided, in 1937, to apply for the first time for authority to advance their charges by 5 per cent. Annual reviews held by the Rates Tribunal from 1929 to 1936 inclusive disclosed deficiencies "likely to continue," but all the companies took away with them was a certificate of good conduct—they were officially declared by the Tribunal to have been efficiently and economically worked and managed!

After careful consideration the companies had arrived at the conclusion that a moderate increase of charges at the present time would improve their net revenue materially, without arresting the continuance of the upward trend in trade. Sir Ralph Wedgwood presented the case of the railways in a very complete and convincing way. The position in regard to standard revenue at the close of 1936 is shown in Table II (see Appendix).

If no loss of traffic resulted, the 5 per cent. advance in charges might produce 7½ millions, but Sir Ralph Wedgwood put in an estimate of £5,600,000—"at the best an instructed guess, and quite certainly wrong, but the best we could do!" With their good case so well presented the companies had little doubt that the Tribunal would grant their application, though section 59 of that Act had not previously been put to the test.

The Tribunal, after hearing all objections, not only granted the 5 per cent. increase and fixed

October 1st as the date from which it should apply, but in the course of their judgment made the important pronouncement printed at the head of this chapter regarding "the public interest." Standard revenue is not, therefore, a matter which only concerns the shareholders; on the contrary, the Government, the railwaymen, the traders, and, in fact, the community as a whole are equally concerned. This declaration made by the Tribunal sixteen years after the Act was passed may prove to be of service in removing a great blot from the fair name of British financial administration—for removed it must and will be.

The question may be asked why, in the face of continued competition, the companies felt able in 1937 to make an application for higher charges which they had refrained from making in the earlier years? The answer was the economic position of the country and that road costs are also rising so that the 5 per cent. increase was unlikely to turn the scale against the railways. Much more on this latter point might have been said, and, indeed, has since been said, by the Transport Advisory Council in its report published in October, 1937, which is discussed in Chapter VII.

The outstanding point is that the companies are allowed to make the small increase in their charges mainly required to meet growing expenditure in respect of wages and materials. But it is also claimed that the ultimate effect will be—not by any means to wipe away the deficiency in standard revenue, but to substantially reduce that deficiency

to the advantage of the shareholders. May not the Boards of Directors and the shareholders put decidedly more emphasis on claims which are now declared by an impartial authority to be in the "public interest"?

CHAPTER VI

RAILWAYS AND THE PUBLIC

The Local Rating Settlement

GOVERNMENT regulation of the railways is so all-embracing that at every point it adds to the cost and difficulty of working. The general managers, legal advisers, accountants and other senior officers find much of their time diverted to the necessary task of defending the companies' interests before an increasing number of public bodies, such as the Rates Tribunal, the Wages Boards, Courts of Law, Traffic Commissioners, etc., not to mention their standing commitments to the Ministry of Transport. In this respect no other industry is so handicapped—and certainly not their competitors. In addition to the serious distraction and loss of time among managers and others already fully occupied, these inquiries cost much in preparation and sometimes involve undesirable publicity. Among others, Sir William Wood of the London Midland and Scottish, and Sir Ralph Wedgwood of the London and North Eastern must have found a large proportion of their time thus taken up. Experience in such matters, however, has its advantages, and, from careful observation during the last forty years, the present

writer can testify that the service thus rendered to the railways is of the highest order.

In these matters patience is frequently necessary —never more so than in the case of the Railway Local Rating Settlement reached last year. After legal and other delays, extending over a period of more than five years, the companies' original contention was upheld, and they effected an annual saving of over two millions per annum in their rates throughout the country, and were entitled to recover about 13 millions in respect of over-payments extending from April 1st, 1931, to December 31st, 1936. The irony of the situation was that the whole problem arose out of an Act passed in 1930 to "simplify" rating of railways! And when tardy justice was done and their own original contention finally upheld by the House of Lords, the companies were accused of having received a "windfall"!

Until 1930 railways had been assessed for local rates on the "parochial" principle. All the individual local authorities concerned assessed the value of those portions of railway property within their areas—a cumbrous and costly process. After all, there is nothing less parochial than a railway, so, finally adopting the course recommended by a Royal Commission on Local Taxation, the Government passed the Railways (Valuation for Rating) Act, 1930. This provided for their assessment *in cumulo*, the lump sum arrived at being afterwards apportioned among the numerous rating authorities, a Railway Assessment Authority being set up for the purpose. Briefly, the principle of the Act was that

the valuation should be based on a rent which it might be assumed a hypothetical tenant would pay for the system as a whole. For the quinquennial period from April, 1931–36, the average net earnings of 1928 and 1929 were to be taken as a basis.

The final settlement was complicated by the provisions of the Local Government Act which "derated" railways to the extent of 75 per cent. in common with other industries. But the relief obtained was to be passed on by the railways to the Freight Rebates Fund and applied to reduce transport charges on certain traffics of agriculture and the heavy industries, and the actual percentage reductions were to be fixed by the Railways Rates Tribunal. This was entirely a Government arrangement and the Chancellor of the Exchequer thanked the companies for their help and made it clear that they were to get nothing out of this relief. The companies repeatedly warned the Rates Tribunal at each annual review from 1930 onwards that their payments into the Freights Rebate Fund were much too large, but they continued to be collected on the basis of the old railway assessments until the legal claims of the railway companies were upheld by the judgment of the House of Lords in January, 1936. Table III in the Appendix shows approximately the effect of that judgment and of the agreement subsequently come to with the Association of Local Authorities. As already indicated, over-payments of about 13 millions were due to be paid back to the four group companies, of which about three-fourths was a liability of the Freights Rebate Fund, and the

balance was due by the local authorities. Steps were taken last year to provide for the return of these large funds, and in particular in December, 1936, an issue was made of £9,300,000 Railway Freight Rebates Fund Stock, 1937–52, under the auspices of the Railway Clearing House. This issue, together with a cash surplus already in the fund, enabled the liability in respect of about 75 per cent. of the excess payments to be met. The balance was recoverable from the local rating authorities. The large sums which the four groups thus received were utilised as set out in Table IV. (See Appendix.)

CHAPTER VII

CO-ORDINATION OF TRAFFIC

"There is no control of road rates, nor any requirements as to publication."—TRANSPORT ADVISORY COUNCIL, October, 1937.

FROM all points of view it has long been apparent that the public interest required co-ordination and co-operation between various forms of transport, and in particular between road and rail. The Royal Commission on Transport and the Salter Committee, together with the Road and Rail Traffic Act of 1933, and the Road Traffic Act, 1930, not only recognised this necessity, but, by recommending and introducing registration and other forms of control, sought to carry some measure of co-ordination into effect. The problem is a very complex one, and is by no means related only to equalising conditions of competition between road and rail. The public safety and the wages and conditions of service of a vast army of road transport workers are of equal importance and urgency. Too long has the road industry been free to develop in a promiscuous way, leading to chaos and its own confusion. For fifteen years after the war anyone could enter the road haulier industry by buying second-hand lorries or obtaining new ones on the hire-purchase system.

One outcome of this freedom has been the very large number of small units leading to excessive competition and varying conditions within the industry itself, as well as lack of organised control.

On the passenger road transport side much progress towards effective co-operation with railways was made because the omnibus industry was concentrated in the hands of a small number of larger companies. But in the case of road hauliers the very large number of small units presents a difficult problem.

Progress, however, can now be registered in solving the problem of co-ordination between road and rail goods transport, if the recommendations of the Transport Advisory Council are adopted and carried into effect, when necessary by legislation. The Council has adopted the report of its Sub-committee on Service and Rates, which was presented to it in July last.

The spirit of the inquiry may be gathered from the statement that:

> "The Chairman wished to record his appreciation of the conciliatory and friendly way in which the road and rail representatives met each other with the evident intention of smoothing over difficulties and arriving at a real measure of co-operation."

Among the important recommendations is the basic one that road hauliers should only be able to operate subject to the observance of fixed minimum rates, etc. The road industry itself is to be stabilised and rate-cutting within the industry stopped. It

is recommended that Area Rates Committees and a Road Rates Tribunal for the whole country should be set up to fix minimum rates, and these are to be published. Observance of them would be a condition of holding the licence. To that extent roads would be put on the same footing as the railways—fixed rates and publicity would take the place of absolute freedom from rate control and secrecy which prevail at present among road hauliers, and there would be no discrimination. These recommendations have the full support of rail and road transport interests represented on the Committee and make a promising contribution towards the solution of an urgent problem. The report itself contains the following:

"Subject to the putting in hand of the legislation and organisation necessary to covering the foregoing points (the recommendations referred to), and some provision to ensure that finality is reached without unreasonable delay, the railway members felt that a very substantial extent of agreement could be reached with the road interests on certain matters raised by the latter in respect to the working of the 1933 Act."

Bearing in mind that failure to equalise the conditions of competition between road and rail lies at the root of the failure of the railways to achieve their standard revenue, surely it may be urged that the Government should proceed without further delay with the necessary legislation. The interests of railways struggling to earn a livelihood happen to coincide with those of the public, and even road hauliers themselves. Here we have an ideal

opportunity for extending that spirit of co-operation herein advocated.

Will the Government do its part? And do it quickly, for the Act of 1921 happens to have been passed sixteen years ago!

CHAPTER VIII

RAILWAYS AND THE STAFF

"The extent of any practicable concessions is of course limited by the financial position and prospects of the Companies."—RAILWAY STAFF NATIONAL TRIBUNAL, August, 1937.

RELATIONS between the railways and their staff are a great deal more cordial than ever appears to be the case in the Press. Any form of labour trouble—real or imaginary—is "news"—but friendly relations and settlements are not. In that respect railways, from a publicity point of view, are very much the same as married people—the happy relations existing in the great majority of cases have no "news value." And perhaps not enough allowance is made for the propaganda of the railway unions. After all, a railway labour leader, like a politician, makes many statements which can only be accepted in a Pickwickian sense, and should be read with laughter rather than tears. It may be doubted whether the personal relations between the senior officials and the general body of the staff are more cordial in any other large-scale service—even in the Government services.

That section of the British public which seemed to be actuated by the mistaken idea that the best

can be got out of the railways by throwing bricks at the managers and empty bottles at the plate-layers is diminishing. Experience proves that a polite inquiry at headquarters on one hand and a little goodwill shown to the porters, etc., on the other is the better way to remove any cause for complaint.

If railway wages and conditions of service are not as generous as some railway directors and many shareholders would like to see them, at least they have for a long time been more handsome than the industry can afford. And it should be kept in view that as the wages and salaries bill in 1936 came to over 100 millions and the sum available for share capital was only 23½ millions, the financial strength of the railways is a matter of most vital interest to the staff. Put another way, the wages bill in 1936 was 111 per cent. above pre-war level, but the net revenue was 30 per cent. below the standard revenue.

Setting aside for the moment all the financial implications, satisfaction was generally expressed that the Staff National Tribunal was able in August last to restore the standard rates of wages which had been subject to varying percentage deductions since March, 1931—a step only rendered possible by the pending increase of 5 per cent. in charges to the public. The Staff National Tribunal also expressed satisfaction in regard to the return to standard wage rates and then proceeded to make the important declaration :

"Future negotiations must be on a somewhat different plane: it must not be forgotten that in 1932 and immediately following years the share of capital

in the net product of the industry was, as a consequence of the course which the negotiations took during that period, reduced below what was contemplated in the Award of 1931."

The further addition made to the wages bill by the decision in August, 1937, was about £2,900,000 per annum—a not ungenerous addition in view of the deficiency in standard revenue. In 1936, notwithstanding some recovery, 78 millions of capital received no return, and many millions more received much less than standard rate.

That many of the salaried and wages staff of the railways have confidence in the companies is shown by the particulars of Savings Bank deposits (see Table V in Appendix), amounting to over 28 millions. These savings banks are organised for the benefit of the staff, and are treated in an absolutely confidential way. These totals are only available because they must be disclosed in the annual audited accounts. That there was an increase in such funds of nearly 2½ millions or 9½ per cent. during 1936 is encouraging, and is in line with evidence of the steady growth of small savings among the community generally.

CHAPTER IX

RAILWAY CAPITAL

SOMETIMES it would appear that the railways belong to anybody or everybody but the actual owners; the politician, the Press, the trade union leader, and even those concerned in competitive forms of transport seem to be quite prepared to dispose of vital railway interests without so much as a "by your leave." This tendency to disregard the legitimate interests of small holders in large corporations is probably due to prevalent loose thinking. It does at least appear that whilst the ownership rights in a house, a car, or a savings bank deposit—to quote some examples—are treated with full respect, holdings, however small individually, or however large in the aggregate, are treated with no respect at all if the investments are in a large railway. Yet every pound of capital raised by a railway company can only be so raised by the express authority of Parliament. Even this apparent protection has not prevented competing interests and even responsible Labour leaders from putting forward, more or less openly, suggestions that railway capital having failed to earn that return justly due to it, and also expressly authorised by Parliament, should be ruthlessly cut down. These suggestions are possibly

not worthy of very serious consideration except for the fact that they have from time to time disturbed the minds of investors. No higher authority, inside or outside the railway world, can be quoted than Sir William Wood, one of the Vice-Presidents of the London Midland and Scottish Railway, who has put this searching question :

> "Why select the most regulated corporations in the country for this suggestion and ignore the many other companies whose stocks and shares are at a discount, not to mention the Government, and Municipal stocks which are also at a discount ?"

Can these pirates visualise the problem as presented to Parliament, which body, having authorised the creation of every pound of such capital, is the only authority which can perform the surgical operation of reducing it ? To raise the question as a practical issue would indeed in all probability serve to stir the conscience of our Legislature, because, if the bargain of 1921 had been complied with, there would be no room for this suggestion at all. There is no good purpose to be served by withholding the admission that, owing largely to the greed of landlords, lawyers, and others, heavy expenses were incurred in the promotion and construction of earlier railways. This, however, was well known to Parliament when the terms of the 1921 Act were decided upon. There is perhaps an even more practical consideration. Owing to expenditure met from time to time out of past revenue, and also to appreciation in the land, etc., brought about

frequently by the development of the railway itself, the replacement costs of the assets now owned by the railways in the aggregate would materially exceed their total capital costs as shown in their capital accounts.

These same pirates overlook the main principle, namely, that the real structure of the prosperity or otherwise of the railways is not in fact founded upon the amount of their capital at all, though the latter, from an investment point of view, is entitled to greater respect than it seems to command. The Railways Act, 1921, so far as the standard revenue provisions are concerned, is entirely based on annual net revenue, and the distribution of that statutory net revenue among the stockholders of various classes is the domestic concern of each of the companies. In other words, the right to earn a certain income would not be affected whether the capital were doubled or even halved.

Another important consideration with which even present-day shareholders may not be fully acquainted is the Regulation of Railways Act, 1844. That, too, is entirely based upon net revenue. Under the conditions of that Act over 90 per cent. of the capital of the railways as they exist to-day was provided. It was introduced by Mr. Gladstone, then President of the Board of Trade, and in a speech to the House of Commons when introducing the Bill, he made this statement:

"The Government were bound to consider those parties who were now going to invest large sums in national improvement. What were the terms and limits

within which, if Parliament thought fit to purchase, it should so purchase ? "

This Act, together with the Railways Act of 1921, form the charter of the railway shareholder, and any attempt to tear up either would rightly be regarded as a repudiation of national credit. The central provision of the Regulation of Railways Act, 1844, was that after twenty-one years of working the Treasury may purchase them at the rate of twenty-five years' purchase of the average net profits of the three preceding years, subject to a further right of any company earning less than 10 per cent. to make further claims in respect of "prospects" to be settled, if need be, by arbitration.

Any possibility of tampering with railway capital may be dismissed. One of the central features of the Railways Act, 1921, was the provision made for, and encouragement given to, the increase of necessary capital expenditure. Table VI in the Appendix sets out the capital expenditure actually incurred by each of the four groups from the end of 1923 (the first year of grouping) till the end of 1936.

A reference to this table will show that such expenditure reached a total slightly over 67 millions. The largest expenditure was incurred by the Southern Railway, namely, over 20¾ millions. This exceptional outlay is largely explained not only by the extension of electrification, but by the fact that during the period concerned it spent over seven millions on Southampton Docks. Of that total sum of over 67 millions spent by the four groups, 60 millions have been raised by the issue of additional

stock, the balance being provided by additions to overdrafts on capital account.

In pre-war days it was customary for a well-balanced capital account to disclose 25 per cent. in the form of Debenture, 35 per cent. in respect of Guaranteed and Preference capital, and 40 per cent. in respect of Ordinary capital. Owing to the large deficiencies in the standard revenue, it has been financially impossible for the companies to adhere to this standard. The reasons are not difficult to discover. The most prosperous of the four groups has been the Great Western, and its dividend has not fallen below 3 per cent., after liberal appropriations from reserve in the years before 1936, when 3 per cent. was earned. The London and North Eastern has been in a worse plight because for the years 1932 to 1935 there was a deficiency even in its first Preference dividends, and an entire absence of dividend on the second Preference and Ordinary stocks, with the small exception that for 1936 ½ per cent. was paid on the 4 per cent. second Preference—a minute token of its share in the national recovery. The London Midland and Scottish had to default to the extent of 1 per cent. on its first Preference in the year 1932 and paid no dividends on its Ordinary stocks from 1932 to 1935 inclusive. Finally, the Southern group, which after maintaining its Preference dividend in full throughout the depression, in 1932 came down to 1 per cent. on its 5 per cent. Preferred Ordinary and paid nothing on its Deferred Ordinary for the years 1931 to 1935 inclusive. In these circumstances the

ordinary stocks of all the groups stood at varying but very heavy discounts, and the issue of the relative amount of ordinary capital to meet current expenditure became impossible.

The 60 millions or so of new capital actually raised, instead of being contributed to the approximate extent of 15 millions of Debenture, 21 millions of Guaranteed and Preference, and 24 millions of Ordinary capital, was in fact issued to an amount of over 32 millions in Debenture stock, and 28 millions in Preference and Guaranteed stock—no part of the outlay being met in the form of Ordinary capital. Another feature of the provision of this capital in the form of Pre-ordinary stock was that a very large proportion of it was issued as redeemable, under the authority of Parliament. In pre-war days such a form of issue was almost unknown in relation to British railway finance. But, for the most part, the companies had to respond to a demand for such fixed dates of repayment of capital in order to raise their funds at reasonable charges in the way of interest.

For these and other reasons much necessary capital expenditure could not be undertaken at all in the years which have succeeded grouping. Being anxious to maintain employment and to help the companies over a difficulty which ought never to have arisen, the Government passed, in 1929, a measure entitled the Development (Loan Guarantee and Grants) Act. This authorised the provision for a period not exceeding fifteen years of a grant in the form of interest at varying rates, until such

capital expenditure had a chance to develop its earning capacity. Capital so expended did, in fact, materially help the nation in the succeeding years of acute depression. But the measure did not in any respect touch the root of the problem.

Another measure on the part of the Government to meet the situation already described took the form of the issue in January, 1936, by the Railway Finance Corporation, of 27 millions of $2\frac{1}{2}$ per cent. Guaranteed Debenture stock 1951–52, which carried the guarantee as to principal and interest of His Majesty's Treasury, in accordance with the Railways (Agreement) Act, 1935. The issue, with the backing of Government credit, provided the four group companies with large sums costing only about $2\frac{3}{4}$ per cent. This was a saving of nearly $1\frac{1}{4}$ per cent. per annum as compared with the most favourable rates at which they could be expected to raise the capital on their own behalf, even by issuing debenture stock. This unfortunate admission, on a grand scale, that the bargain of 1921 had been allowed to break down, only served to aggravate the disproportion of railway capital. In the 1936 accounts of each group items appear showing that Debenture stock has been created as collateral security for loans from the Government made under the auspices of the Railway Finance Corporation. Such items appearing in the accounts are shown in the table on top of page 47.

In addition the Great Western Railway and the London and North Eastern are receiving further loans, similarly secured, of £1,600,000 and £8,000,000

Great Western Railway . .	£5,500,000
London and North Eastern Railway	£6,000,000
London Midland and Scottish Railway	£9,000,000
Southern Railway . . .	£6,000,000
	£26,500,000

respectively from the London Electric Transport Finance Corporation providing for the capital expenditure in the London area of these two groups, and also to a still larger extent by the London Passenger Transport Board.

The four group companies have consequently pledged rather over 36 millions of their Debenture stock as security, and this sum is an addition to the 32¼ millions of Debenture stock actually issued during the period 1923 to 1936. These steps would certainly not have been necessary if the anticipations of 1921 had been realised. What is more to the point, however, is that in the course of the next fifteen years it is desirable that the companies by raising capital in the proper relative forms should be able to restore to equilibrium a capital structure which is becoming top-heavy. It may be added that some shareholders were by no means enthusiastic in connection with these large commitments. It appeared that, once again, the interests of railway shareholders were being sacrificed to the national demands in respect of maintenance and extension of employment. As prices of materials required to carry out the construction programme have rapidly

advanced since the agreement of 1935 was arrived at, the addition to estimated costs is very large, and has probably nullified the apparent saving of interest which the Government enabled the companies to make by pledging its own credit. Indeed, while it may be urged that it was a good stroke to have the capital provided, as and when it was provided, the interests of the companies may now suggest a slowing down of the works involved, and this is understood to be taking place, at least until costs are more reasonable.

CHAPTER X

POINTS FOR INVESTORS

"We could not forget that many of our Ordinary stockholders are people of modest means whose holding in our company represents the savings of a lifetime of thrift, and constitutes their main defence against the disabilities of old age and the slings and arrows of misfortune. For most of those a beneficent State provides neither dole nor pension and it rests with us to meet our obligations to them so long as we can do so legitimately without impairing in any degree the financial stability and operating efficiency of the company."—LORD HORNE, Chairman, Great Western Railway, February, 1936.

PATIENCE has been the outstanding quality of the British railway shareholder for many years, just as courage has been that of the boards of directors and the management. Will they meet with their due reward? Is it possible that having subordinated the owners' interests to every other claim upon them, the railway boards will be able and willing to place more emphasis upon the restoration of dividends to the junior stocks on the limited scale provided by standard revenue, when earned? Patient shareholders have not been oblivious to the difficulties, and the impatient ones have long ago sold their holdings. But it may be that opportunities will

arise for showing that consideration which is admittedly due, before faith in the standard revenue and all that it implies is finally lost.

To appreciate the prospect fully it is desirable to estimate what has already been accomplished since the "grouping" was effected as from January 1st, 1923. Over a hundred systems, some of them quite large, have had to be welded into only four separate undertakings. The rolling stock, permanent way, stations and equipment had to be standardised and co-ordinated—a task calling for mechanical and engineering skill of the highest order—and involving heavy expenses in the change-over. More difficult still was the reorganisation of the staff, especially at headquarters, and of co-ordinating methods of traffic working. All the grouped companies had been controlled and managed by men with long and honourable traditions in the service, with their own notions of traffic methods gained by practical experience. Many of these directors and officials of the old separate companies had powerful local interests behind them, and no doubt the customers of the railways lost that "personal touch" which it is so difficult to keep alive in the larger undertakings.

Co-ordination opened out the need for capital outlays and improvements and for linking-up in order to get the best out of physical amalgamation. At a later stage, too, came the rail-head system and the closing, especially for passenger traffic, of many branch lines. Research, whether in traffic methods or scientific manufacture of stores, etc., was obviously too serious an expense for small companies, but has

been taken full advantage of by the group companies with ultimate savings in working capital employed in stores, and also reduction in comparative costs. Then modernising in signalling and in equipment generally has been proceeding at heavy initial cost. Then came the great depression during which the companies, instead of making heavier cuts in staff, with great courage and confidence in the future carried out their renewal programmes and also maintained heavy capital expenditure which could only be fully justified if it helped the companies to earn the standard revenue.

No industry contributed more to maintaining its own employment throughout the depression or did more to reduce unemployment in other leading industries by showering orders upon manufacturers and traders. In this respect the railways deserve well of the National Government and the nation.

Though profits fell disastrously and dividends disappeared, the companies have maintained a relatively strong and liquid position. Table VII (see Appendix) gives the approximate amounts of reserve and renewal funds at December 31st in the years 1913, 1923 and 1936. Between 1913 and 1923 these amounts in the aggregate rose from 19½ millions to 116 millions, but, of course, the latter total was swollen by Government compensation payments and by the accumulated provision for deferred renewals during the control period. Between 1923 and 1936 these funds fell from 116 millions to 65½ millions, owing to the increased outlay on replacements and also because of the large draft

on their surplus funds forced upon them by the coal strike and general strike in 1926. It is true that these reserves remained at the close of 1936 at 46 millions over the 1913 total; but it has to be remembered that the renewal funds are charged with the cost of replacement at current prices, and any comparison must have regard to the price factor.

It may be observed that the risks associated with the developments since grouping have fallen entirely on the junior stockholders.

Commercially-minded people may ask—Why do the shareholders suffer their directors to treat them in this way? Why don't they insist on their standard revenue, having regard to the way in which full rates of dividend are paid by other public utility companies and to the rapid growth in profits shown by other industries dependent on the service and patronage of the railways? The answer is twofold. Railway directors do not and cannot be expected to represent solely the interests of the shareholders. And, secondly, the supposed control exercised by the latter over their directors is much more remote than it was in the pre-grouping days, and maybe some steps should be taken to remove this defect. A body of over 200,000 shareholders in a single company cannot effectively protest—if even 5 per cent. of them wished to do so, there is no hall in London big enough. Organisation by circular and proxy vote is equally prohibitive as to both time and cost. These dangers were to some extent foreseen when grouping was under discussion, but they carried little weight

because the very basis of the Act of 1921 was "security."

Any plea for co-operative effort to restore the fortunes of the junior stockholders must naturally embrace the directors—and, indeed, the latter do not entirely fail to appreciate that the general body of proprietors have shown exemplary and, indeed, quite saintly patience. Having maintained the permanent way and rolling stock at a high standard, and having also maintained wages and reserves, is it not high time that maintenance of the destitute ordinary shareholders received attention?

There are signs that so far as circumstances will allow junior stockholders will receive less niggardly treatment. In several important respects the position of the railways has become clarified and even stabilised, so that attention may be directed, with the co-operation of all parties, to removing the deficiency of over 15½ millions a year in the standard revenue. Standard wages have been restored; the local rating problem has been settled till 1941; the provision for increasing railway charges under the Act of 1921 has been put into operation for the first time; and, finally, some active steps towards co-ordination of road and rail traffic have been taken—as indicated in earlier chapters. These important steps have all been taken in the last few months, and it may reasonably be anticipated that when the accounts for 1937 are presented some improvement will be shown in the dividends on all the group junior securities. The relative position and prospects of these investments

will be discussed in the succeeding chapters dealing with each of the four groups.

In the meantime some more general considerations affecting all British railway securities may be referred to. The revenues of all the groups are free from currency and exchange difficulties and complications, though there is no doubt that indirectly they suffer seriously from the cramping conditions

Company	Year to date (January 3rd to November 28th, 1937) Increase	
	£	%
London Midland and Scottish Railway	2,428,000	4·23
London and North Eastern Railway	2,049,000	4·90
Great Western Railway	1,217,000	5·11
Southern Railway	663,000	3·48

under which international trade is being conducted. The growth in their traffic would be encouraged if tariffs, customs, quotas, and exchange barriers could be removed. This is especially the case as our railways can be described as the world's largest dock-owners, and among the largest owners of steamships.

British railway securities are also free for the most part from the strange comings and goings of international finance—they are never the sport of international speculation. And another point in

their favour is that their income is free from the new taxation in the form of the National Defence Contribution.

The summary, on page 54, of the Weekly Traffic Returns is compiled by the *Railway Gazette*, and shows the extent of the improvement from January 3rd to November 28th, 1937.

These represent increases in railway receipts. There has also been some advance in the revenue from ancillary undertakings which is not published each week.

CHAPTER XI

CONCLUSIONS

IN the foregoing chapters both the need and the opportunity for co-operation among the various, but by no means conflicting, interests concerned in the railway system of this country have been stated. How can co-operation be beneficently extended? The arrangement between the Government and the railways embodied in the Act of 1921 can only be carried out fully and successfully with active Government support. And now that the Rates Tribunal has expressed its definite opinion that the realisation of the Standard Revenue is in the "public interest," the task is easier for all concerned. Certainly no subsidy or financial obligation is required from the public to meet the case, although it is an unfortunate fact that most other forms of transport are relying on Government subsidies, and very heavy ones, as the taxpayer and the ratepayer know only too well.

A change of heart and a wider and more sympathetic grasp of the relative importance and immediate difficulties of the railways would go far. Perhaps a series of questions addressed to the Government and Parliament will best indicate the requirements and urgency of the situation.

(1) Is it wise that Parliament and the Government should sap the most important system of transport at a time when it is artificially stimulating other forms of transport at great cost to the public ?

(2) Is it wise that the largest and most regular customers in the home market should be restrained in their necessary outlays ? And how does this fit in with present day plans designed to build up our internal system of national economy ?

(3) Why should traders have to face an increase in rates when under the Railways Act, 1921, a reasonable prospect was held out to them of some reductions due to the definite limitation of railway profits ?

(4) Is it wise that the railways should be so placed that after four years of national industrial recovery they are unable to carry the burden of reasonable wage and other demands of nearly 600,000 railwaymen ?

(5) Is it wise that in order to encourage capital expenditure and to maintain employment the railways should have to rely on Government credit for raising new capital ? It may be explained that all other forms of Public Utility such as gas, water, electricity, docks, etc., have been able to raise these funds on very reasonable terms and have not had to consider the offer of Government assistance in this respect.

(6) Is it wise that the second largest body of investors in this country (holders of Government stocks being the first) should be suffering from the lack of a reasonable return ?

Members of Parliament who, as pointed out in an earlier chapter, have been quite energetic in putting questions to the Government about the shortcomings of foreign Governments in their relations with their own railways, might find their time more profitably employed in pondering over the questions set out above and putting them to the Government at the appropriate time.

When Government policy is so shaped that it is possible to give satisfactory answers to these questions with all that they imply, it will be permissible for all the interests concerned to take a more confident view of the Future of British Railways. In particular, the Government could afford immediate and substantial benefit by putting in hand the legislation and organisation necessary to carry out the co-ordination of rail and road goods transport, as quite recently recommended by the Transport Advisory Council. The atmosphere in which this problem has hitherto been considered has not been helpful. The Railway Companies have long ago recognised that within certain ranges motor transport best meets the public need. They are, themselves, among the largest users of motor vehicles for this very reason. Coupled with the proper solution of this problem in the interests of the taxpayer and the ratepayer, there would naturally follow some regulation of the lavish expenditure upon the roads. At the moment the official policy seems to be, first, to encourage the expenditure of say five or ten millions by the railways by pledging Government credit, the risk being taken

by the shareholders, and then, secondly, destroying the chance of the foregoing expenditure ever being remunerative by spending on the roads a corresponding ten, twenty or thirty millions out of the public funds, on which no interest is paid except by the ratepayer and the taxpayer.

What of the railwaymen? By accepting their "cuts," and by their general spirit of co-operation in re-organising and extending the usefulness of the railways, they have already made a handsome contribution towards meeting the difficulties of the situation. Without their cordial support the railways could not have been maintained in their predominant position as a part of the country's system of transport. Perhaps in the future they could best promote their own most important interest in the industry by doing more to assist the companies to regain full prosperity. Wages, after all, are based upon the net product of the industry. With their powerful organisations the railwaymen can do more to promote prosperity than the shareholders, particularly if they co-operate fully with the management and the directors. Think of the political influence likely to be wielded by active co-operation between nearly 600,000 railwaymen and a much larger body of shareholders.

What of the directors and managers? They should harden their hearts and not be so ready to respond to the blandishments of the Government and others by accepting the obligations to spend many millions which help to solve the unemployment problem and give very profitable orders to

other industries, but which, without the Government guarantee, would not have been entered upon at the particular time. It has sometimes happened that the giving out of large orders by the railway companies has stimulated the demand for manufacturing and other securities and had a correspondingly depressing effect upon quotations of British Railway Stocks. The instinct of the Stock Exchange in this respect has probably been a sound one, and points a moral.

And finally, what of the owners of the railways? They have, perhaps, already made their contribution so effectively that, in the case of the ordinary shareholders, there is little left to give either by way of loss of dividend or further depreciation in capital values. Patience and enforced abstinence have been their lot, although under the Railways Act, 1921, they were promised reasonable security.

What of the future?

To those many thousands of small investors who have shown so much patience, a little more patience is confidently recommended. The forces making for restoration of their dividends and the recovery in capital values of the junior stocks are stronger than they have been since grouping—and a good deal more effective perhaps than is generally estimated. Their case is so good and their claims so just that they are entitled to take heart. They may also reasonably look to their directors, now that other claims are being satisfied, for more emphasis on the early achievement of standard revenue and for full co-operation among all the

CHAPTER XII

THE GREAT WESTERN

"Altogether, rightly or wrongly, I am inclined to confront 1935 with rising hope and increasing confidence. In any case that is the spirit in which we should go forward to our tasks. We shall achieve nothing if we fumble in fear or harass ourselves with apprehensions."

THESE remarks were addressed to the shareholders of the Great Western in February, 1935, by Lord Horne, as Chairman, speaking with all the added authority of a former Chancellor of the Exchequer—a Chancellor who, by the way, had endeared himself to the long-suffering taxpayer by taking a shilling off the income tax—the only holder of that exalted office who has ever performed such a miracle.

In its policy and administration this company has always shown courage—not least of all during and since the economic blizzard. At the same time, the Great Western has not only been able, but willing, to show liberal consideration for the ordinary shareholders in their difficulties. Its ordinary dividend of 3 per cent. is the best being paid by any group. Since the consolidation of the Ordinary stock in 1870 the dividend has never fallen below 3 per cent. In

the years 1931 to 1935 inclusive, when the current earnings fell short of that rate, the Board showed great courage and confidence in the company's future by taking large sums from reserve to maintain the minimum of 3 per cent. For the year 1936 they were handsomely justified because the 3 per cent. was rather more than earned, and the settlement of the local rating claims from 1931 to 1936 also enabled the Board to carry to reserve the sum of £1,737,800, raising the Contingency Fund to £3,252,679—approximately the total of the free reserves six years earlier.

The Great Western is the third largest group in relation to capital, and is easily third as regards mileage, gross revenue and net revenue. In relation to its finances and its payment to its ordinary shareholders this company stands first. But its dividend of 3 per cent. compares with 8 per cent., based on standard revenue, and its Ordinary stock still stands at a very serious discount.

The Great Western was the only one of the four groups which in the process of grouping has maintained its identity and retained its name. The grouping meant in its particular case the absorption of various small companies, principally in South Wales, and in this respect the amalgamations were only a continuation of a policy which had been pursued by the Board for many years.

In many respects this maintenance of an established policy which meant the growth of the undertaking into a "greater" Great Western was an advantage. In traffic methods, technical improve-

ment and in personnel the changes imposed upon the company were by no means revolutionary, and there was not the serious jolting in the change-over which had to be endured by the other groups. The high standards of management and of technical efficiency which the Great Western had already attained before the period of Government control were readily extended to embrace the various smaller additions to this great undertaking.

Among the most important companies merged in the Great Western under the Act of 1921 were the Barry, the Cardiff, the Cambrian, the Brecon and Merthyr, Neath and Brecon, the Rhymney, Port Talbot and the Taff Vale.

The titles of the undertakings indicate that it was in South Wales that its largest new interest was staked out. That was in some ways unfortunate because, in the great depression and since, that area has proved to be one of the most seriously and obstinately depressed. As the large South Wales dock interests as well as its local railways were included in the undertakings absorbed by this company, the losses falling upon the parent company have been disastrous indeed. Out of total capital outlay at December 31st, 1936, of 184½ millions on all its undertakings, the docks, harbours and wharves represented over 21 millions, apart from the many millions invested in South Wales railways. The chairman pointed out that in 1934 the gross receipts of the docks were £1,112,000 below those of 1929, and in spite of great economy the net receipts fell to £89,000, or less than ½ per cent. on the capital. Three

of the docks were not even earning their expenses in 1933 and 1934. But the company could not take the same course as an ordinary commercial concern and even temporarily close any of the docks without the authority of Parliament.

Enterprise and initiative have always been associated with the Great Western, and that "special" area owes much to the steps taken to stimulate a revival. The South Wales Recovery Committee was formed under the leadership of Lord Horne, the Great Western Chairman, with the able assistance of Sir James Milne, its General Manager. With the co-operation of the Government and the Nuffield Trustees the unemployment problem in South Wales was seriously attacked. In addition to the Chairman and General Manager of the Great Western, one of its Directors, Lord Portal—a Nuffield Trustee—has taken a leading part in this national service. Relief from acute depression is reflected in the recovery in Great Western receipts from this and other areas. For the current year the dock receipts are recovering to the extent of 20 per cent. over 1936. The company's interim statement for the six months ended June 30th, 1937, indicated an increase of £887,000 in the gross receipts of the railway and ancillary services, and an addition to the net revenue of rather over £500,000. The interim dividend on the Ordinary stock was raised from $\frac{1}{4}$ to $\frac{1}{2}$ per cent. (actual).

The Debenture stocks of this company are all authorised trustee investments. They consist of $2\frac{1}{2}$, 4, $4\frac{1}{4}$, $4\frac{1}{2}$ and 5 per cent. issues respectively. Out of a

total of barely 40 millions, the 4 per cent. is by far the largest, namely, rather over $27\frac{3}{4}$ millions. The latter consequently enjoys much the freest market, but they all stand at a high level of security regarded as trustee investments. The interest on all the five issues ranks *pari passu*, and is paid on all of them on the same dates, namely, January 15th and July 15th. It is interesting to note that in an earlier period of cheap money some of the $2\frac{1}{2}$ per cent. stock was actually issued at a little over 100.

The ample margin of security for these Debenture stocks may be gathered from the following. In the accounts for 1936 the sum available was £6,359,000 to meet an interest charge on all the Debenture issues amounting to barely £1,650,000. There was, therefore, a margin after paying the interest on these securities of £4,709,000. In other words, the interest was earned practically four times over. With the improvement in the revenue disclosed in the first half of this year the interest was earned more than four times over.

The 5 per cent. Rent Charge stock amounting to rather less than $7\frac{3}{4}$ millions ranks next to the Debenture stocks and is also a high-class trustee investment. After meeting its interest in the year 1936 there was a surplus of £4,323,000. The interest on this stock is, of course, cumulative.

Next in order of seniority is the 5 per cent. Guaranteed stock, amounting to rather over $23\frac{3}{4}$ millions. After meeting the dividend on this stock the surplus available in the year 1936 was £3,133,000. The dividend on this security is also cumulative.

Next in order of security comes the Preference Capital, which consists of rather less than 29½ millions of 5 per cent. Consolidated Preference stock and rather under six millions of 5 per cent. Redeemable Preference stock, 1950. These rank *pari passu* for dividend, but, of course, the Redeemable stock is definitely repayable at par on June 30th, 1950, whilst the Consolidated Preference issue is a perpetual stock. The Consolidated Preference stock is a full trustee investment. For technical reasons, the 5 per cent. Redeemable Preference stock has ceased to be a trustee security because, being redeemable within fifteen years, it happens to stand at a premium over redemption price. Whilst, however, this means that it is not available as a new trustee investment, it by no means implies that earlier purchasers are debarred from continuing to hold this stock.

After meeting the full dividend on both issues of Preference stock there was a margin, as disclosed by the accounts for 1936, of £1,364,000, and this is growing. During the great depression it was alleged, with some show of plausibility, that there was a shortage in earnings on the Preference issues. It is true that in the worst year, namely, 1932, particularly large drafts had to be made upon reserves. In fact, for that year, £605,927 was included in respect of profit on realisation of investments, and some further sums of, in all, £1,100,000 were taken from reserves, making altogether a total of £1,705,927. Excluding this special provision to meet an emergency, the actual earnings of the year 1932 appeared to be about £375,000 short of the

amount required to meet the Preference dividends in full. The subsequent settlement of the local rating claims of the company, however, indicated that after writing back the sum recovered and applicable to that year, there would have been sufficient to meet the Preference dividends.

In Table VIII (see Appendix) this company's accounts for the last eight years are summarised.

The Ordinary stock deserves to rank high as an industrial security which up to June 30th, 1937, was earning at the rate of over 4 per cent. And its prospects of earning its standard revenue are good.

CHAPTER XIII

THE LONDON MIDLAND AND SCOTTISH

IN all respects this group is by far the largest. For that reason its problems of consolidation, co-ordination, standardising and economising were the most difficult. The London and North Western was the biggest partner in the group. Other first-class companies merged with it were the Midland, Lancashire and Yorkshire, Caledonian, North Stafford, Glasgow and South Western, Highland, Furness, North London, and a host of smaller systems. A suggestive example of the many problems presented is that of locomotive types. On amalgamation the group inherited from the old companies 393 different types, making up a total stock of 10,316 engines. By 1931 they had been reduced to 261 types, and by 1935 to 185, and were still falling. Other forms of rolling stock, equipment, and stores were equally diversified owing to the large number of different undertakings which had to be merged. It can hardly be supposed that methods of dealing with the traffic were quite so varied, but they were certainly not less difficult to co-ordinate and codify.

Another outstanding feature of this group is that it comprised within its territory practically every

depressed area, except the north-east coast. The Clyde, and Scotland generally, Lancashire, the north-west coast and even to some extent South Wales, are among the most important districts served by this group. And, as it was also the group mainly concerned in the Irish traffic, this company has suffered much from the fiscal war between this country and Ireland.

In addition to the industrial depression which prevailed in its particular areas it has suffered much from continuous road competition. Indeed, it may be said that the very acuteness of the depression intensified the competition in this respect. Road rivals not merely stole the most profitable traffic, they also set up an erosion of rates which was proving no advantage to the road industry itself, but sufficed to further reduce railway revenue. Sir Josiah Stamp has been, perhaps for this very reason, the most downright and effective champion of railway interests in relation to this particular competition, not, as he has frequently pointed out, merely in the interests of the railways themselves, important though they are, but in the broader interests of an economic transport system continuously performing its great work in the national interest, in peace as well as in war. Addressing his shareholders in February, 1936, Sir Josiah Stamp made the following important pronouncement :

"The community owes the railway system equality with the road in legislation, and not until adjustment on this basis has enabled the true earning value of the

railways to be made effective can any of these comparative problems be seen in true perspective."

With trade depression, road competition and the other difficulties of the situation, it required a good deal of courage to carry through in a thorough-going fashion the reorganisation necessitated by grouping, but it has been faced with pertinacity and, it may be added, a remarkable display of patience on the part of the ordinary stockholders, who were entirely deprived of their dividends in the years 1932 to 1935 inclusive, and only received a ¼ per cent. in 1931 and 1¼ per cent. in 1936. If the company had been allowed to earn its standard revenue the dividend on the Ordinary stock would be 8 per cent.—a by no means exceptional rate of dividend on the old London and North Western stock which did, in fact, receive 8½ per cent. for the year 1922. In other words, including the loss of dividend on the 1923 Preference stock for two years, 1932 and 1933, considerably more than one-fourth of the capital of the company received no income at all. Between the years 1929 and 1932, for the reasons already indicated, the gross revenue from all businesses carried on by the company fell by over 16 millions. By dint of strenuous economies the loss in net revenue in the same period was reduced to less than seven millions.

Experience may show that the directors have been cruel in order to be kind, and it can at least be said that the work so persistently carried out in times of depression had some remarkable advantages, viewed broadly. To begin with, the company made

a large contribution to the maintenance of employment in its own service and outside at a time when unemployment was rife indeed. It might also be said that most of the work has been done when prices of materials were much lower and costs generally more favourable than they are to-day. And finally, they have put the undertaking in a position to deal more efficiently and economically with the growth of traffic which has since been experienced, and to place the undertaking in all respects in its rightful position in a system envisaging co-ordination of all forms of transport. Some examples of what has been accomplished may be referred to. In February, 1936, the chairman pointed out that on rolling stock generally the company was ahead of normal requirements and, whilst there would be no question of relaxing physical standards, the company will have appreciably less renewals to meet for some years after 1937.

A reference to Table VII (see Appendix) will show that the increase in reserve and renewal funds of this group, as compared with 1913, was only 7½ millions, which happens to be the smallest increase of any of the four groups. The explanation was given by the Chairman at the meeting in February, 1937, when he pointed out that between 1929 and 1936 the renewal funds had been reduced from £19,792,000 to £13,065,000. In the interval there had been spent on renewals and re-equipment some £33,000,000 out of current revenue, in addition to the £6,727,000 taken from the accumulated funds

shown above, and also a special addition of 3¼ millions made last year by the recovery of local rating arrears due to the Company. In other words, it would appear that this group, instead of having its renewal funds more largely in the form of cash and Government securities, has invested a very large proportion in anticipation of its requirements in re-equipment. In view of the large advance in costs the all-round advantages of this policy are clear.

This problem of costs is indeed a serious one in various directions, both from the capital and the revenue points of view. For example, in the first half of 1937 this group in its interim statement disclosed an addition to its receipts of £1,410,000, but the addition to its expenses, largely in respect of higher rates of wages and higher prices for materials, reduced the net increase to a sum of only £310,000, rather over ¼ per cent. additional for the Ordinary stock for the half year.

At the last annual meeting the chairman evidently had this question of higher costs before him as well as the problem of road competition, when he said :

> "As I have previously informed you, we shall not engage in any large capital scheme, such as electrification on a wide scale, without due regard, not only to the probable return but also the risk involved in new outlay on fixed plant pending the ultimate relations of the railways and the public roads becoming clearer."

The present writer, who was present, can testify that this statement was more heartily applauded than any other part of a very illuminating speech.

The Pre-ordinary stocks of this company were trustee investments until the accounts were presented for the year 1932. For that year there was not only an absence of any ordinary dividend, but considerable shortage in the payments on the Preference stocks.

Though the Debenture stocks of the London Midland and Scottish ceased to be trustee investments they still remain on a very high level of security, and still remain available as Scottish trustee investments. The 4 per cent. Debenture stock amounts to about 101¾ millions, and the 5 per cent. Redeemable Debenture stock 1952 amounts to rather over 7¼ millions. They rank together for interest, but, of course, the redeemable stock is definitely repayable at par on May 15th, 1952. How ample is the security for the protection of these issues will be seen from the accounts for 1936. The interest on both issues required the sum of £4,439,000, but the sum available was over 14 millions, leaving a margin, after payment of the interest for the year, of nearly 9¾ millions. With the improvement in profits during 1937 it may be assumed that this margin is now over 10 millions.

The next security in order of seniority is the 4 per cent. Guaranteed stock, amounting to rather over 40½ millions, requiring for its annual interest £1,628,000. The surplus remaining after its dividend for 1936 was well over 8 millions.

After the Guaranteed, the Preference stocks rank for dividends. The largest issue is that of the 4 per cent. Preference, amounting to nearly 119 millions

—in fact this is the largest separate issue of any of the four groups, and it enjoys a correspondingly free market. Ranking *pari passu* with this issue is the 5 per cent. Redeemable Preference stock 1955, amounting to rather over $9\frac{1}{2}$ millions. Together, they absorb £5,241,000 a year for their dividends, and the accounts for 1936 showed a surplus after payment of the full rates on these stocks of well over $2\frac{3}{4}$ millions.

The uniformly satisfactory dividend record of this group was interrupted in the period from 1932 to 1935 inclusive. The 4 per cent. Preference and the 5 per cent. Redeemable stocks were short of a part of their dividends for both 1932 and 1933, but they were resumed in full from 1934 onwards. It is interesting to note that if the sum subsequently recovered in respect of local rating had been available in those two particular years the deficiency of 1 per cent. in the dividend for 1932 on the 4 per cent. Preference would have been reduced by two-thirds, and the deficiency of $\frac{1}{2}$ per cent. in its dividend for 1933 would have been more than made up. In other words, the actual earning capacity of the railway, even in the depths of the depression, practically sufficed to earn these dividends in full.

The Junior Preference stock, ranking immediately ahead of the ordinary capital, is the 4 per cent. Preference stock, 1923, amounting to slightly over 40 millions and requiring for its annual dividend a sum of £1,605,000. This was earned in 1936 with a surplus of rather over $1\frac{1}{4}$ millions, which represented the sum paid on the Ordinary stock, with

the addition of £79,000 carried forward to the next year's accounts.

A summary of the main features of this company's accounts for the past eight years will be found in Table IX (see Appendix).

No security of the various railway groups is in a more interesting position than the ordinary capital, amounting to about 95¼ millions. Having received no dividend for four years from 1932 to 1935 inclusive, payment was resumed in 1936 at the rate of 1¼ per cent., a particularly serious shortage as compared with the 8 per cent. to which it is entitled on the standard revenue basis. Even more serious than the loss of dividends has been the disastrous depreciation in the capital value, because holders, however patient and confident, cannot always afford to wait for the recovery which they may regard as ultimately inevitable. As a long-range investment it is deserving of consideration because of the success with which the property itself has been built up. If the recovery in receipts is continued and co-ordination with other transport undertakings dealt with in a statesmanlike way, the patience of the ordinary stockholders of this great undertaking will be amply rewarded.

CHAPTER XIV

THE LONDON AND NORTH EASTERN

SECOND in importance of the four groups, the London and North Eastern is the weakest financially, and the deficiency in its standard revenue is much the largest relatively—the amount last year being about six millions. The most important and almost the only prosperous original member of the group was the old North Eastern, and among the more important of the other companies merged in the larger undertaking were the Great Northern, Great Eastern and Great Central, and in Scotland the North British and Great North of Scotland. So seriously was this group hit by the depression that for the years 1932 to 1935 inclusive over 40 per cent. of its capital received no return, and for 1936 only ½ per cent. was paid on the 4 per cent. Second Preference capital amounting to over 66 millions, still leaving the 5 per cent. Preferred Ordinary and the Deferred Ordinary out in the cold. These last two issues represent together 78 millions of stock. In fact nothing has been paid upon the Deferred Ordinary stock since the dividend distributed for 1925, and nothing on the Preferred Ordinary since 1930. Not only did this company suffer relatively the most because of the severe depression on the

North-East Coast and in Scotland, but because of the normally heavy proportions in which its revenue is earned from goods and mineral traffic.

In the circumstances much credit is due to the management for securing a recovery of nearly two millions in the net revenue of 1936 as compared with 1932; but the rate of return on the total capital even last year was only 2·74 per cent., or fully 10s. per cent. below the average for all the groups—low as was the latter rate. If the average rate had been earned by this group the deficiency of six millions would have been reduced by 1¾ millions.

Let it not be supposed for a moment that the difficult financial position of this group has affected only the stockholders, both in income and capital losses. Repercussions of a most clearly disastrous character can be traced in at least two directions, extending far beyond the interests of the unfortunate owners. It is not a mere coincidence that the capital expenditure of this group since 1923 has been actually and relatively the lowest of any of the groups. During 1936, whilst the other three groups expended nearly four millions between them on capital account, this weakest group spent only £182,000 net, after allowing for credits from sale of land and a steamship.

Why, indeed, should the board and the shareholders be anxious to encourage new capital commitments when there is no adequate return on the old capital? And if they did, where is the money to be raised? The reasonable demands for development of its London suburban area have had to be post-

poned until recently. Now the Government through the guarantee of large issues made by the London Electric Transport Finance Corporation and the Railway Finance Corporation are providing in all 16 millions for this company. But this is a stop-gap, and not a remedy for the obvious defect in the financial structure of the groups. By itself it affords the strongest possible justification for the plea for active co-operation advanced in these pages.

Mr. Whitelaw, the Chairman of this group, pointed out at the last annual meeting that owing to increased costs it may be necessary to modify or even abandon some of these capital schemes based on Government credit.

If on the one hand the impoverished position of this group has led to restriction of the necessary provision of capital, it has also had another repercussion of an unwelcome character which concerns wages. It is no secret that claims for increased wages and improved conditions for the staff have met with strenuous opposition from Mr. Whitelaw and his Board of Directors, and that he has been overborne by pressure from other groups less impoverished though hardly to be described as opulent. Though the North Eastern Chairman is a genial and large-hearted man, he is a realist, and he knows the truth about the hard cases. One feels that Mr. Whitelaw has been anxious to deal with the problem in a more thorough-going and statesman-like way, but that he has been restrained by his colleagues. But is not Mr. Whitelaw right?

Within the limits of its financial disabilities the

London and North Eastern has accomplished wonders. In acceleration of services and provision of modern rolling stock, for example, great strides have been made.

In the Chairman's review of the business during 1936 some interesting details were given of the outcome of its road investments, which serve to emphasise the poor return of the railway side of the undertaking. It appears that rather over 2¼ millions invested in associated bus companies produced a return of 10 per cent., and was accompanied by a relative saving in the closing of branch lines for passenger traffic of £99,000 a year. A smaller investment in road freight businesses yielded 5·69 per cent.

In some respects the position and outlook have improved. Net revenue rose during 1936 by £770,000, and for the first half of 1937 the company's interim statement indicated a further recovery of £770,500 in net profits—quite the best achievement of any of the groups for that half-year. The directors felt justified in paying interim dividends on the 4 per cent. First Preference and the 5 per cent. Redeemable Preference at the rates of 1 and 1¼ per cent. respectively, against nothing paid on these two stocks in the corresponding period of 1936.

A reference to Table IV (see Appendix) also reveals that relatively this company recovered more than any of the groups in respect of rating relief from April, 1931, to December 31st, 1936—namely, over four millions. As this company had suffered the most in falling profits it was only reasonable

that it should obtain the greatest measure of relief. Of the refund thus obtained, £3,340,000, the sum attributable to the period ending December, 1935, was carried to the Rolling Stock Renewal Fund. This in turn enabled the auditors to give their certificate to the accounts for 1936 without any qualification. Their certificate for the years 1932 to 1935 inclusive had been given "Subject to the adequacy of the charge to Revenue for renewal of rolling stock."

Mr. Whitelaw, the Chairman of the company, at the last annual meeting expressed the view that no further improvement in wages, etc., is warranted until the financial position of 1930 is secured. The results of 1937 should substantially reduce the deficiency compared with that year. The Chairman, and the management of this company, under the leadership of the Chief General Manager, Sir Ralph Wedgwood, have had a particularly difficult task, but the outlook is better. A year ago the Indian Government paid Sir Ralph the high compliment of appointing him chairman of a committee to inquire into the finances of the Indian State-owned railways.

The main features of this company's accounts for the past eight years are summarised in Table X (see Appendix).

All the securities of this group, with the exception of the Preferred and Deferred Ordinary, were trustee investments until the accounts for the year 1931 were presented, showing no dividend on the two Ordinary stocks. Since that date there have been deficiencies in the dividends on the Preference stocks

to the extent of only partial payments on the First Preference and the 5 per cent. Redeemable stock, and nothing at all upon the 4 per cent. Second Preference for 1932–35; so that, in any case, these securities would not have been available as trustee investments.

The debenture stocks of this group under the wider powers of Scottish trustees are still available as Scottish trustee investments. There are four issues of Debenture stock, namely, 3 per cent. and 4 per cent. stocks, which are both perpetual, and smaller amounts of 5 per cent. Redeemable stock, 1947, and 4½ per cent. Sinking Fund Debenture stock. They all rank *pari passu* for their interest, but the 5 per cent. Redeemable Debenture stock is repayable at par on April 15th, 1947, whilst the 4½ per cent. Sinking Fund stock is redeemable by July 1st, 1970, by means of an annual cumulative sinking fund.

After deducting £50,000 taken from reserve, the accounts for 1936 show that the sum of £9,181,000 was available to meet the total debenture charges, including the sinking fund on the 4½ per cent. issue, amounting to £4,247,000. There was thus a margin of nearly five millions, and this has been substantially increased by the addition to the net revenue disclosed in the interim statement for the first half of 1937.

Next in order of seniority is the 4 per cent. First Guaranteed, which requires a sum of £1,323,000 for its annual interest, and this was earned with a margin of over 3½ millions.

Next follows the 4 per cent. Second Guaranteed,

requiring £1,108,000 of annual interest, leaving a margin of about 2½ millions. Both these guaranteed securities are cumulative, and their dividends were regularly paid each half-year throughout the depression.

Then come the 4 per cent. First Preference and 5 per cent. Redeemable Preference stocks, which rank *pari passu* for their dividend. The 4 per cent. issue is perpetual and amounts to rather less than 48¼ millions, whilst the 5 per cent. Redeemable stock is only a little over four millions in issue. The latter is redeemable at 100 on June 30th, 1955. After several years, during which there was some shortage in their dividends, the full payment on both these stocks was resumed for 1936, with a margin over of about £347,000. This sufficed to pay only ½ per cent. on the 4 per cent. Second Preference (formerly a trustee investment), leaving a small balance to carry forward.

Long delay in restoring dividends and the large deficiencies in the standard revenue may have obscured the real recovery made in recent years, and still being made. At least the excessive depreciation in market values of all the junior stocks seems to suggest that the investing public have hardly realised the steady improvement now going forward or the reasons set out above for expecting progress to continue. No group seems to present so much scope for recovery in market values if the Chairman and the Board will give a lead to the shareholders and place more emphasis on enforcing the claim to standard revenue. After all, if the full standard

revenue is earned not only would the full rate of 4 per cent. be provided on the Second Preference stock, but the full 5 per cent. on the Preferred Ordinary and over 4 per cent. on the Deferred as well.

CHAPTER XV

THE SOUTHERN

THIS group is the smallest, but financially is relatively strong. The company escaped the full rigour of the depression by reason of the predominance of its passenger revenue and the fact that it served the area which was least affected. Also it may be observed that the steady development of its electrification programme from one area to another has provided a background of expanding gross revenue which off-set the downward tendency in other directions.

The important companies in this group, which came into being as the Southern Railway Company on January 1st, 1923, were the London and South Western, the London Brighton and South Coast, the South Eastern and the London Chatham and Dover, together with several subsidiary railways. As long ago as January 1st, 1899, the South Eastern and Chatham had already entered into a working agreement—virtually an amalgamation in every respect except in capital. It provided for absolute control by a Managing Committee, the net revenue being divided as to 59 per cent. to the South Eastern, and 41 per cent. to the Chatham. Additional capital had to be provided on the same percentage basis,

and it is interesting to recall that as long ago as 1903 the Managing Committee were authorised to work their railways by electrical power.

A reference to Table VI (see Appendix) will show that in respect of capital expenditure since grouping the Southern, though the smallest group, has expended the most—namely, about 20¾ millions, and it still has a heavy programme on hand. The relatively strong financial position has enabled it to undertake large capital outlays on a truly enterprising scale, principally on electrification and Southampton Docks. Its mileage electrified is now the largest of any suburban railway system in the world.

In docks, etc., it had expended a capital sum of nearly 13¾ millions at the end of 1936, as compared with about 6½ millions at December 31st, 1923. The net receipts from this branch of its business were £357,600 for 1936, compared with £153,900 in 1923.

The Southern Railway is justly proud of its developments at Southampton Docks, and though the direct return on the capital invested there is small, this enterprise contributes much revenue to the railway in all departments. The Chairman, Mr. R. Holland-Martin, pointed out at the last annual meeting that in 1935 Southampton could claim 41 per cent. of the ocean passenger traffic, and the percentage is still rising. For cruises alone this port accounted for 60,000 passengers and there were 450,000 day visitors to the docks in 1936. A quarter of a million went down to see the *Queen Mary*.

The electrifying of its lines, where density of traffic justifies it, still proceeds, and in addition to the Portsmouth line opened last summer, other routes are being converted in accordance with a programme extending to 1940. The whole of the six millions provided by the Railway Finance Corporation under the Railways (Agreement) Act, 1935, will be devoted to this great work.

As the group which controls the principal continental routes, the Southern is vitally interested in such traffic. In the early days of the depression foreign travel was officially frowned upon and the adverse exchange also restricted the traffic. Since the autumn of 1936 the improvement in the exchange value of the pound sterling in relation to continental currencies—particularly those known as the "gold" currencies—has given a great impetus to this traffic in many ways, and not least of all by the reduction in the sterling fares.

All the securities of the Southern Railway Company are trustee investments, with the exception of the 5 per cent. Preferred Ordinary and the Deferred Ordinary issues.

There are three issues of the Debenture stocks, totalling rather less than 47½ millions, but the interest on all three issues ranks *pari passu*. The largest issue is the 4 per cent. Perpetual Debenture stock amounting to rather over 39¼ millions. There is a small issue of about three millions of 5 per cent. Debenture stock, which is also perpetual, and the remaining issue is 4¾ millions of 4 per cent. Redeemable Debenture stock, 1962–1967, which is redeem-

able at par not later than June 30th, 1967, but may be redeemed on any June 30th from 1962 to 1966 inclusive, on six months' notice from the company. On the basis of the earnings of 1936 there was available for the whole of the debenture capital a sum of nearly 6½ millions to meet debenture interest which amounted in the aggregate to a sum of £1,918,000, leaving a margin of rather over 4½ millions.

The next securities ranking for dividend are the two guaranteed stocks. One is an issue of about 5¼ millions, described as Guaranteed Preference stock, which is a perpetual issue, and the other is an issue of seven millions of 5 per cent. Redeemable Guaranteed Preference stock, 1957, which is redeemable at 100 on June 30th, 1957. Both these guaranteed stocks rank *pari passu* for their dividend, and they are cumulative. After paying the interest on the two guaranteed stocks there was a surplus earned during 1936 of nearly £3,900,000.

Next in order of seniority come the two preference issues. Here again there is an issue of 5 per cent. Perpetual Preference stock, amounting to rather over 40½ millions, and a small issue of two millions 5 per cent. Redeemable Preference stock, 1964, which is redeemable at 100 on December 31st, 1964. The sum available to meet the interest on these two Preference stocks was over 3¾ millions, and after meeting the dividends there was a surplus of 1¾ millions. Here again the two issues rank *pari passu*.

We now come down to the Ordinary stocks. The

5 per cent. Preferred Ordinary amounts to rather over 27½ millions and received its dividend in full for the years 1935 and 1936. The payments in respect of 1936 were at the rate of 1 per cent. in August and the balance of 4 per cent. after the close of the year. That the security for this stock is improving will be observed from the fact that the interim payment covering the period to June 30th, 1937, was raised from 1 per cent. to 2 per cent. In respect of the year 1936 a payment of ½ per cent. was also made upon the Deferred Ordinary stock—the first dividend received by the holders of this security since that for 1930.

The interim statement of this company indicated that to June 30th, 1937, there was an advance in the net revenue for the six months of £210,000—a sum equivalent to rather over ⅝ per cent. on the Deferred Ordinary stock. Subject to additional capital, etc., charges, it thus appeared that on the basis of results to June 30th, 1937, about 1⅛ per cent. was being earned upon the Deferred Ordinary stock. A reference to Table II (see Appendix) shows that both actually and relatively the deficiency in the standard revenue of this group is much the smallest, and it may be quite substantially reduced by the improvement shown during 1937. Should it be earned in full in any subsequent year, the sum available for the Deferred Ordinary stock would be equal to about 3¼ per cent.

In Table XI (see Appendix) the main features of this company's accounts for the past eight years are summarised.

In considering the outlook for this company there are several important points that might well be kept in mind. Compared with conditions on January 1st, 1923, when the group was formed, there has been a great advance in the physical standards of the permanent way and rolling stock. These have been associated not merely with the electrification programme but extend to the still very important steam services all over the system. In reviewing what has been accomplished from a financial point of view allowance must be made for the large additions to expenditure which have been involved in these technical improvements. Even in connection with electrification itself also allowance must be made for the fact that the benefits from a revenue point of view can only be gradually achieved. Traffic of this character is only cumulatively built up by the provision of intensive train services, a large proportion of which is, in the earlier stages, relatively unproductive.

No consideration of the position of the Southern Railway at this moment would be complete without a reference to the recent retirement of Sir Herbert Walker. His connection with the group extends back for twenty-six years when he became General Manager of the former London and South Western, the most important partner in the Southern Group. He has been General Manager of the Southern since it came into being in 1923 and in that capacity has been mainly responsible for the remarkable development of the system in relation to Southampton Docks and the electrification programme of the

group. Also, it may be recalled that he rendered outstanding service to the nation and to the railway industry during the war period, and in the subsequent difficult and prolonged negotiations for restoring the railways to their owners. His successor, Mr. Gilbert Szlumper, has long been associated with the system, and is likely to maintain the high traditions of the service. In a personal message to the staff Mr. Szlumper sounds the right note, namely, "service to the public," accompanied by an effective appeal for team work.

For the foregoing and other reasons it is possible to take a fairly confident view of the outlook for this group even after making due allowance for various difficulties that have to be overcome, some of these arising out of the development of traffic which has been so effectively stimulated by its own enterprise. All the trustee stocks of this group have not only steadily advanced in status because the security underlying them has increased in the last four years, but this growing strength is likely to continue. As the outcome of its successful rating appeal this company was able, in 1936, to carry to Revenue Works Suspense Account a sum of £700,000 and, in addition, re-established its General Reserve Fund by transferring to it a sum of £500,000. These transfers constitute an addition to the free reserves of the company and serve to improve the position and prospects of the Preferred Ordinary and Deferred Ordinary stocks.

APPENDIX

TABLE I

Trustee Stocks

LONDON MIDLAND AND SCOTTISH RAILWAY. Year 1932

Stock.	Amount of Stock.	Dividend paid.	Dividend deficiency for year.
	£	%	£
4% Preference Stock	118,908,762	3	1,189,087
5% Redeemable Preference Stock .	9,699,132	£3 15 0	121,240
4% Preference 1923 Stock . .	40,133,987	*nil*	1,605,359
TOTAL .	168,741,881	—	2,915,686

NOTE.—For years 1935 and 1936 all the above dividends were paid in full, with a considerable margin in 1936.

LONDON AND NORTH EASTERN RAILWAY. Year 1932

Stock.	Amount of Stock.	Dividend paid.	Dividend deficiency for year.
	£	%	£
4% First Preference Stock . .	48,222,669	1	1,446,680
5% Redeemable Preference Stock .	4,014,400	1¼	150,540
2nd Preference Stock	66,142,180	*nil*	2,645,687
TOTAL .	118,379,249	—	4,242,907

NOTE.—For 1936 the First Preference and 5% Redeemable Preference received full dividends, but the rate on 2nd Preference was only ½% = *Deficiency* £2,314,976.

TABLE II

Net Revenue for 1936 compared with Standard Revenue

Company.	Net Revenue. Year 1936.	Standard Revenue.	Deficiency.
	£	£	£
Great Western .	6,314,830	8,466,560	2,151,730
London and North Eastern . .	9,141,395	15,216,735	6,075,340
London Midland and Scottish . .	14,048,176	20,579,930	6,531,754
Southern . .	6,226,160	7,095,870	869,710
TOTAL . .	35,730,561	51,359,095	15,628,534

TABLE III

Railway Assessments

Company.	Old Assessment.	New Quinquennial Assessment.	
		1931–36.	1936–41.
	£	£	£
Great Western .	2,296,000	1,650,000	1,400,000
London and North Eastern . .	2,591,000	1,100,000	1,100,000
London Midland and Scottish . .	3,630,000	1,750,000	1,500,000
Southern . .	1,839,000	1,077,000	1,150,000

TABLE IV

Amounts Recoverable from Rating Authorities and the Railway Freight Rebates Fund April 1st, 1931, to December 31st, 1936

	Southern.	Gt. Western.	L. M. & S.	L. & N. E.
	£	£	£	£
Total estimated amount recoverable .	1,720,000	2,200,000	4,978,000	4,095,000
These sums were allocated as follows :—				
Credited to Revenue, 1935	250,000	—	885,000	—
,, ,, 1936	270,000	462,200	913,000	755,000
Rolling Stock Renewal Fund . .	—	—	1,500,000	3,340,000
Revenue Works Suspense Account . .	700,000	—	—	—
Works and Equipment Maintenance Fund	—	—	1,680,000	—
Contingency Fund	—	1,737,800	—	—
General Reserve Fund	500,000	—	—	—
Total	1,720,000	2,200,000	4,978,000	4,095,000

TABLE V

Railway Savings Bank Deposits

Company.	December 31st, 1935.	December 31st, 1936.
	£	£
Great Western . . .	3,104,300	3,311,600
London Midland and Scottish	10,712,300	11,999,600
London and North Eastern .	8,612,200	9,377,300
Southern	3,240,700	3,459,500
TOTAL . . .	25,669,500	28,148,000

TABLE VI

Railway Capital, 1923–1936

Company.	Amount of Capital expended, December 31st, 1923.	Amount of Capital expended, December 31st, 1936.	Increase.
	£	£	£
Great Western	167,805,000	184,695,000	16,890,000
London and North Eastern	338,788,000	351,737,000	12,949,000
London Midland and Scottish	438,029,000	454,444,000	16,415,000
Southern	148,308,000	169,144,000	20,836,000
TOTAL	1,092,930,000	1,160,020,000	67,090,000

TABLE VII

Reserve and Renewal Funds, 1913, 1923 and 1936 (000's *omitted*)

Group.	Reserve and Renewal at December 31st.			Increase 1936 over 1913.	Decrease 1936 compared with 1923.
	1913.	1923	1936.		
	£	£	£	£	£
Great Western	3,220	24,835	17,760	14,540	7,075
London and North Eastern .	5,616	33,854	20,284	14,668	13,570
London Midland and Scottish	9,314	43,357	16,853	7,539	26,504
Southern	1,542	14,115	10,733	9,191	3,382
TOTAL . . .	19,692	116,161	65,630	45,938	50,531

TABLE VIII

Great Western Railway—Eight Years' Results

	1929.	1930.	1931.	1932.	1933.	1934.	1935.	1936.
Total capital expenditure (in thousands of pounds)	174,114	175,630	179,424	181,084	182,505	183,685	184,073	184,695
Gross receipts from businesses carried on by company (in thousands of pounds)	36,184	34,347	31,140	28,462	28,424	29,280	29,789	30,763
Revenue expenditure (in thousands of pounds)	29,209	28,226	26,053	24,430	23,971	24,311	24,818	24,840
Net revenue from all sources (in thousands of pounds)	8,199	6,987	*5,682	*4,459	*4,829	*5,411	*5,451	6,315
Dividends paid %								
5% Preference	5	5	5	5	5	5	5	5
Ordinary Stock	7½	5½	3	3	3	3	3	3
* Net revenue after adjustment of estimated over-payment of rates, 1931–1936			5,953	4,824	5,190	5,774	5,829	6,315

TABLE IX

London Midland and Scottish—Eight Years' Results

	1929.	1930.	1931.	1932.	1933.	1934.	1935.	1936.
Total capital expenditure (in thousands of pounds) . .	448,509	452,282	453,441	453,037	452,974	452,555	452,843	454,444
Gross receipts from businesses carried on by company (in thousands of pounds)	81,661	76,445	70,754	65,496	65,291	68,180	69,455	72,719
Revenue expenditure (in thousands of pounds)	66,907	64,468	59,000	56,319	55,185	56,925	57,044	59,159
Net revenue from all sources (in thousands of pounds) .	17,175	13,426	*12,656	*9,905	*10,713	*11,921	*13,028	14,048
Dividends paid %								
4% Preference .	4	4	4	3	3½	4	4	4
5% Red. Preference	5	5	5	3.15.0	4.7.6	5	5	5
4% do., 1923 .	4	4	4	*nil*	*nil*	1⅝	4	4
Ordinary Stock .	4½	2	¼	*nil*	*nil*	*nil*	*nil*	1¼
* Net revenue after adjustment of estimated over-payment of rates 1931 1936 .			13,320	10,762	11,561	12,761	12,998	14,048

TABLE X

London and North Eastern—Eight Years' Results

	1929.	1930.	1931.	1932.	1933.	1934.	1935.	1936.
Total capital expenditure (in thousands of pounds) . .	344,249	347,085	348,295	349,350	350,077	351,334	351,554	351,737
Gross receipts from businesses carried on by company (in thousands of pounds)	63,295	59,825	53,828	48,679	48,789	51,376	51,819	53,944
Revenue expenditure (in thousands of pounds) . .	50,895	49,206	44,990	41,979	41,496	43,521	43,945	45,146
Net revenue from all sources (in thousands of pounds) .	13,061	11,169	*9,424	*7,107	*7,723	*8,348	*8,371	9,141
Dividends paid %								
4% 1st Preference .	4	4	4	1	2	3¼	3¼	4
5% Red. 1955 Pref.	5	5	5	1¼	2½	4$\frac{1}{16}$	4$\frac{1}{16}$	5
4% 2nd Preference	4	4	1	*nil*	*nil*	*nil*	*nil*	½
5% Prefd. Ordinary	3	¼	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*
Deferred Stock .	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*
* Net revenue after adjustment of estimated over-payment of rates, 1931–1936 . .			9,968	7,867	8,417	9,052	9,069	9,141

TABLE XI

Southern Railway—Eight Years' Results

	1929.	1930.	1931.	1932.	1933.	1934.	1935.	1936.
Total capital expenditure (in thousands of pounds)	158,089	159,390	160,772	163,139	164,337	166,064	167,425	169,144
Gross receipts from businesses carried on by company (in thousands of pounds)	26,507	25,890	24,374	22,329	22,598	23,153	23,517	24,268
Revenue expenditure (in thousands of pounds)	20,914	20,702	19,762	18,349	18,093	18,399	18,476	18,995
Net revenue from all sources (in thousands of pounds)	6,548	6,134	*5,608	*4,894	*5,540	*5,800	*6,072	6,226
Dividends paid %								
5% Preference	5	5	5	5	5	5	5	5
5% Prefd. Ordinary	5	5	4	1	3	4	5	5
Deferred Ordinary	2½	1¼	*nil*	*nil*	*nil*	*nil*	*nil*	½
* Net revenue after adjustment of estimated over-payment of rates, 1931–1936			5,838	5,199	5,845	6,105	6,127	6,226

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